UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

In re SKECHERS USA, INC. SECURITIES LITIGATION	Civil Action No. 1:18-cv-08039-NRB
	CLASS ACTION
This Document Relates To:	Hon. Naomi Reice Buchwald
ALL ACTIONS.	DEMAND FOR JURY TRIAL

CONSOLIDATED AMENDED CLASS ACTION COMPLAINT
FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS

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Lead Plaintiffs Local #817 IBT Pension Fund, Local 272 Labor-Management Pension Fund, and Chester County Employees Retirement Fund ("Plaintiffs" or "Lead Plaintiffs"), individually and on behalf of all others similarly situated, by their undersigned attorneys, allege the following based upon the investigation of their counsel, which included a review of United States Securities and Exchange Commission ("SEC") filings made by Skechers USA, Inc. ("Skechers" or the "Company"), as well as securities analysts' reports and advisories, press releases, media reports and other public statements issued by or about the Company. Lead Plaintiffs believe that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a federal securities class action on behalf of all persons who purchased Skechers common stock between October 20, 2017 and July 19, 2018, inclusive (the "Class Period"), seeking to pursue remedies against the Company and certain of its current executive officers and/or directors and managers (together, "Defendants," as further defined below) under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule l0b-5 promulgated thereunder (17 C.F.R. §240.10b-5).

2. Skechers is a designer and marketer of Skechers-branded lifestyle footwear and performance footwear. The Company sells its footwear in department, specialty and independent stores, as well as through its Skechers retail stores and online. Skechers' products are available in over 170 countries and territories through its distribution networks, joint ventures, and wholly-owned subsidiaries in Asia, Europe, Canada, Central America and South America.

3. This case focuses on Skechers' explosive sales growth that was fueled by rampant increases in the Company's selling, general and administrative ("SG&A") expenses and Defendants' misrepresentations that such expenses would moderate. As detailed herein, between 2012 and 2017

alone, Skechers' total annual net sales grew by more than 150%, with net sales in its international wholesale segment growing by 300%.

4. During the same time period, the Company's SG&A expenses increased substantially. Skechers has such high SG&A expenses in proportion to its net sales because China – where the Company's growth is primarily focused – is a region where the primary sales channels are direct-to-consumer sales through mono-branded stores and online. Opening stores and providing marketing, operational and organizational support through franchised, joint venture partner and Company-owned stores are expense-heavy operations.

5. These enormous expenses result in narrow operating margins and low profits for the Company. For example, as detailed below, in the second quarter of 2018, Skechers reported $1.134 billion in revenues, but just $45 million in net earnings and an operating margin of 7.2%. As a result, during the Class Period, analysts covering the Company and investors were sharply focused on the Company's SG&A expense growth and, in particular, when Skechers would stop growing its expenses faster than its sales – *i.e.*, "leverage" its SG&A expenses.

6. Throughout the Class Period, Defendants continued to highlight the Company's record sales growth while assuring investors that Skechers was, among other things, concentrating on "***bringing** . . . **expenses in line with expected sales***" and that its disproportionate SG&A expense growth was slowing down. Defendants' representations associated with the Company's SG&A expenses were materially false and misleading, because Defendants were focused on growing Skechers' business without any regard to the SG&A expenses that were necessary to achieve an increase in sales numbers, particularly in connection with the Company's expansion in China. As such, Skechers' excessive SG&A expense growth was not set to subside.

7. During the Class Period Defendants were well aware of the magnitude of the Company's likely SG&A expenses. For example, typical retail store roll-outs are planned at least six to nine months prior to store openings. In addition, store financials, real estate sourcing and product orders require long lead times. These events are not typically done within the same quarter in which a store opens, but rather up to three quarters in advance. Once Defendants chose to speak about the Company's SG&A expenses, they had a duty to speak completely and truthfully, including speaking about the costs they were incurring, or expected to incur, at the time.

8. As a result of Defendants' fraudulent scheme, the price of Skechers common stock was artificially inflated throughout the Class Period.

9. On April 19, 2018, following the close of the market, Skechers announced its first financial results and reported that SG&A expenses grew at a substantially higher rate than its net sales – *i.e.*, SG&A "deleverage" – in direct contrast to what Defendants told the market to expect for the quarter. Specifically, the Company reported that during the first quarter, SG&A expenses totaled $439.8 million – a ***23.4%*** increase from the first quarter of 2017, $37.4 million of which was "to support international growth in the Company's joint venture and subsidiary businesses" – compared to a ***16.5%*** increase in net sales over the same period.

10. In response to this disappointing news, the price of Skechers common stock declined from $42.08 per share on April 19, 2018 to close at $30.70 per share on April 20, 2018 – a decline of approximately $11.38 per share, more than 27%, on heavy trading volume.

11. Yet, Defendants continued to mislead the market about the trajectory of the Company's SG&A expense growth. For example, on the Company's April 19, 2018 earnings conference call, Defendant Weinberg, Skechers' Chief Operating Officer and Executive Vice President, stated that "***we do believe that*** . . . ***will be able to again start to leverage again in Q3. It***

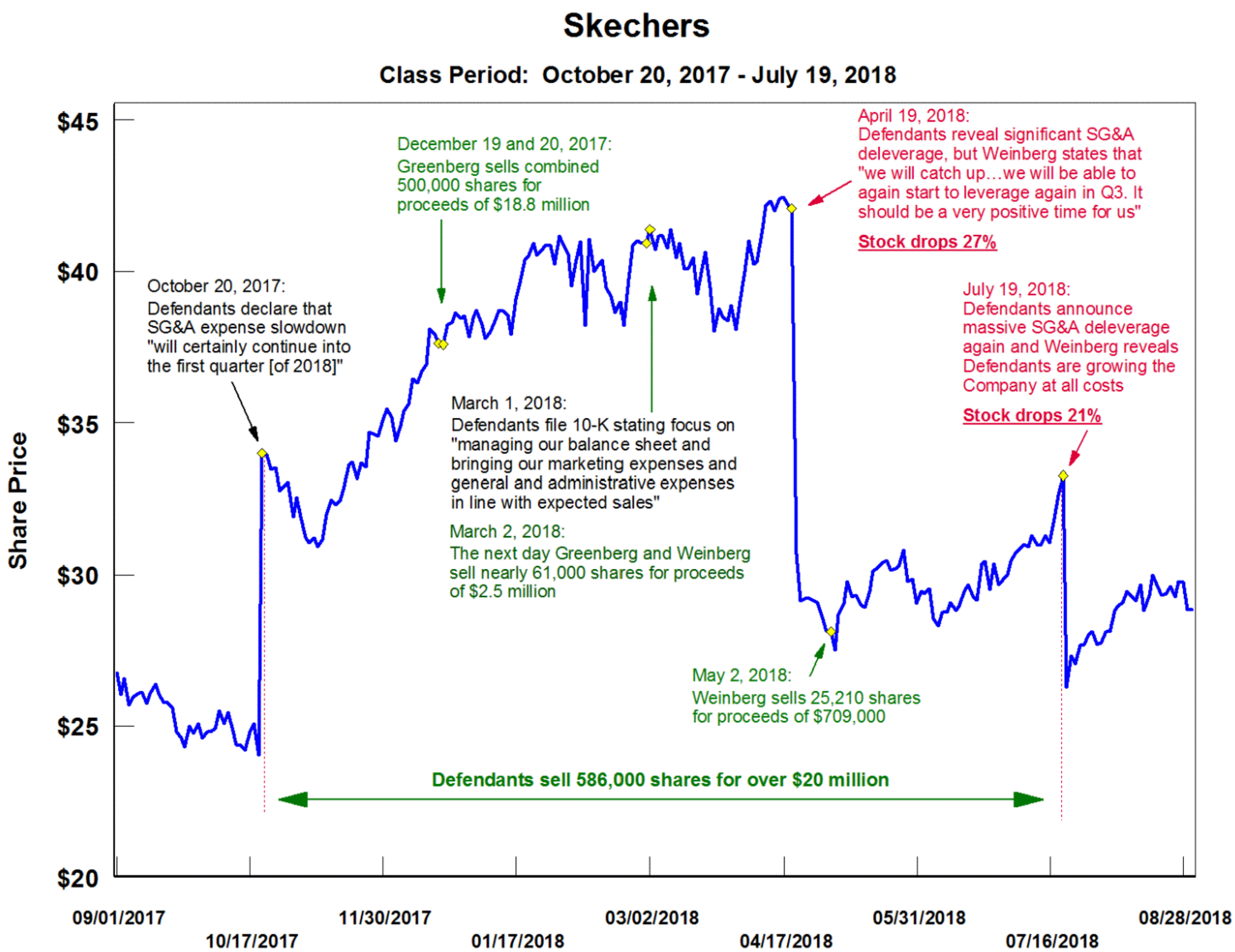
should be a very positive time for us." Defendants, however, failed to disclose that the Company was already incurring substantial SG&A expenses in the second quarter of 2018, in particular in China, such that the Company was once again poised to report SG&A expenses growing significantly faster than sales and that this was going to continue for the foreseeable future.

12. Then, on July 19, 2018, after the market closed, Skechers shocked the market by once again revealing a massive increase in its SG&A expenses for the second quarter of 2018, which grew by nearly ***twice*** the amount that net sales grew compared to the second quarter of 2017. The Company announced that almost half of the significant increase in general and administrative expenses, or $29.4 million, was "to support continued expansion" in China. Through these revelations, Defendants made it known that, in contrast to their prior statements, they were not in any way concerned with increasing the Company's profits and were solely focused on top line growth. In fact, Defendant Weinberg admitted as much, stating "***[w]e just don't necessarily think that way. We're into growth. We think that transition to sacrificing top line growth for EBIT will happen when a marketplace tell us – as we get into – closer to a saturation point. Right now, we are built for growth***. . . ."

13. On this news, the price of Skechers common stock fell from $33.25 per share on July 19, 2018 to close at $26.27 per share on July 20, 2018 – a decline of nearly $7.00 per share, or approximately 21%, on heavy trading volume.

14. As a result of Defendants' materially false and misleading statements, Skechers common stock traded at artificially inflated prices during the Class Period. After the above revelations seeped into the market, however, the price of Skechers common stock declined significantly, sending Skechers' stock price down ***38%*** from its Class Period high.

15. Before the truth about the Company's uncontrolled and ever-increasing SG&A expenses was revealed to the market, certain of the Individual Defendants (defined below) and other senior Skechers executives cashed in, collectively selling over $38 million of their personally held Skechers shares to the unsuspecting investing public. Defendants' fraudulent scheme and the loss felt by investors are shown in the following chart:



JURISDICTION AND VENUE

16. The claims asserted herein arise under and pursuant to §§10(b) and 20(a) of the Exchange Act (15 U.S.C. §§78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. §240.10b-5).

17. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §1331 and Section 27 of the Exchange Act.

18. Venue is proper in this Judicial District pursuant to §27 of the Exchange Act (15 U.S.C. §78aa) and 28 U.S.C. §1391(b). Skechers' stock trades on the NYSE, located within this District.

19. In connection with the acts, conduct and other wrongs alleged herein, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the United States mail, interstate telephone communications and the facilities of the national securities exchange.

PARTIES

20. Lead Plaintiff Local #817 IBT Pension Fund purchased Skechers common stock during the Class Period as set forth in its previously filed certification, which is incorporated by reference herein, and was damaged thereby.

21. Lead Plaintiff Local 272 Labor-Management Pension Fund purchased Skechers common stock during the Class Period as set forth in its previously filed certification, which is incorporated by reference herein, and was damaged thereby.

22. Lead Plaintiff Chester County Employees Retirement Fund purchased Skechers common stock during the Class Period as set forth in its previously filed certification, which is incorporated by reference herein, and was damaged thereby.

23. Defendant Skechers was founded in 1992, and became a publicly-traded company and SEC registrant through an Initial Public Offering in 1999. Throughout the Class Period, Skechers' common stock was traded actively on the New York Stock Exchange ("NYSE") under the ticker symbol "SKX." During the Class Period, Skechers had approximately 155 million shares of common stock outstanding on the NYSE.

24. Defendant Robert Greenberg ("Greenberg") served at all relevant times as Skechers' Chief Executive Officer ("CEO") and Chairman of the Board ("Chairman"). Greenberg has held these positions since founding the Company in 1992. During the Class Period, Defendant Greenberg signed the Company's March 1, 2018 annual report, filed on Form 10-K.

25. Defendant David Weinberg ("Weinberg") served at all relevant times as Skechers' Chief Operating Officer ("COO"), Executive Vice President ("EVP"), and a Board Director. Weinberg also served as Skechers' Chief Financial Officer ("CFO") during the Class Period until on or about November 15, 2017. During the Class Period, Defendant Weinberg signed the Company's March 1, 2018 annual report, filed on Form 10-K and November 3, 2017 quarterly report, filed on Form 10-Q.

26. Defendant John Vandemore ("Vandemore") served as Skechers' CFO during the Class Period, beginning on or about November 15, 2017. During the Class Period, Defendant Vandemore signed the Company's March 1, 2018 annual report filed on Form 10-K and the Company's May 4, 2018 quarterly report, filed on Form 10-Q.

27. The defendants referenced above in ¶¶24-26 are sometimes referred to herein as the "Individual Defendants."

28. The defendants referenced above in ¶¶23-26 are collectively referred to herein as "Defendants."

29. The Individual Defendants possessed the power and authority to control the contents of Skechers' SEC filings, press releases, and other market communications. The Individual Defendants were provided with copies of the Company's SEC filings and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or to cause them to be corrected. Because of their positions with the

Company, and their access to material information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public, and that the positive representations being made were then materially false and misleading. The Individual Defendants are liable for the false statements and omissions pleaded herein.

30. Defendants are liable as direct participants in the wrongs complained of herein. In addition, Defendants were "controlling persons" within the meaning of Section 20(a) of the Exchange Act and had the power and influence to cause the Company to engage in the unlawful conduct complained of herein. Because of their positions of control, Defendants were able to and did, directly or indirectly, control the conduct of Skechers' business.

31. Defendants, because of their positions with the Company, controlled and/or possessed the authority to control the contents of Skechers' reports, press releases and presentations to securities analysts and through them, to the investing public. Defendants were provided with copies of the Company's reports and press releases alleged herein to be misleading, prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Thus, Defendants had the opportunity to commit the fraudulent acts alleged herein.

32. As controlling persons of a publicly-traded company whose stock was registered with the SEC pursuant to the Exchange Act, and was traded on the NYSE and governed by the federal securities laws, Defendants had a duty to promptly disseminate accurate and truthful information with respect to Skechers' financial condition and performance, growth, operations, financial statements, business, products, markets, management, earnings and present and future business prospects, and to correct any previously issued statements that had become materially misleading or untrue, so that the market prices of Skechers common stock would be based upon truthful and

accurate information. Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

33. Each of the Defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Skechers common stock by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme deceived the investing public regarding Skechers' business, operations, and the intrinsic value of Skechers' common stock, causing Lead Plaintiffs and other members of the Class to purchase Skechers common stock at artificially inflated prices.

SUBSTANTIVE ALLEGATIONS

The Company and Its Business

34. Skechers is a designer and marketer of Skechers-branded lifestyle footwear and performance footwear. The Company sells its footwear in department, specialty and independent stores, as well as through its Skechers retail stores and online. The Company was founded in 1992 by Defendant Greenberg. His sons, Michael and Jeffrey Greenberg, are both high ranking officials at the Company.

35. Michael Greenberg has served as the President and a member of the Board of Directors of the Company since its inception in 1992, and from June 1992 to October 1993, he served as Chairman of the Board of the Company.

36. Jeffrey Greenberg has served as Senior Vice President, Active Electronic Media of the Company since June 2005 and as a member of its Board of Directors since September 2000. From January 1998 to June 2005, Jeffrey Greenberg served as Vice President, Active Electronic Media of the Company, served as COO, Secretary and a member of the Board of Directors of Skechers from June 1992 to July 1998 and as its CEO from June 1992 to October 1993.

37. Defendant Greenberg and his family retain substantial control over the Company. As reported in Skechers' most recent annual report on Form 10-K for the year ended December 31, 2017, which was filed with the SEC on March 1, 2018 (the "2017 Form 10-K"):

> As of December 31, 2017, our Chairman of the Board and Chief Executive Officer, ***Robert Greenberg, beneficially owned 75.2%*** of our outstanding Class B common shares, members of Mr. Greenberg's immediate family beneficially owned an additional 10.9% of our outstanding Class B common shares, and Gil Schwartzberg, trustee of several trusts formed by Mr. Greenberg and his wife for estate planning purposes, beneficially owned 34.3% of our outstanding Class B common shares. The holders of Class A common shares and Class B common shares have identical rights except that holders of Class A common shares are entitled to one vote per share while holders of Class B common shares are entitled to ten votes per share on all matters submitted to a vote of our stockholders. ***As a result, as of December 31, 2017, Mr. Greenberg beneficially owned 35.1% of the aggregate number of votes eligible to be cast by our stockholders, and together with shares beneficially owned by other members of his immediate family, Mr. Greenberg and his immediate family beneficially owned 42.7% of the aggregate number of votes eligible to be cast by our stockholders***, and Mr. Schwartzberg beneficially owned 22.2% of the aggregate number of votes eligible to be cast by our stockholders. Therefore, Messrs. Greenberg and Schwartzberg are each able to exert significant influence over, all matters requiring approval by our stockholders.

38. The Company operates through three reportable segments: (i) domestic wholesale sales; (ii) international wholesale sales, which includes international direct subsidiary sales and international distributor sales; and (iii) retail sales, which includes the Company's e-commerce sales. As of December 31, 2017, Skechers' products were available in over 170 countries and territories through its distribution networks, joint ventures, and wholly-owned subsidiaries in Asia, Europe, Canada, Central America and South America.

39. As of September 30, 2018, Skechers owned and operated 681 stores, including 465 domestic retail stores and 216 international retail stores. Altogether, as of September 30, 2018, Skechers footwear is available at 2,802 Skechers owned and third party-owned retail stores.

40. The Company's products are produced by independent contract manufacturers that are located primarily in China and Vietnam. Skechers does not own or operate any manufacturing

facilities. According to the 2017 Form 10-K, "[d]uring 2017 and 2016, the top five manufacturers of our products produced approximately 47.5% and 51.0% of our total purchases, respectively."

The Company Attains Massive Revenue Growth

41. In recent years, Skechers has achieved strong revenue growth. As set forth in the following chart, since 2012 alone, the Company's total annual net sales have grown by ***166%***:

Year	Net Sales
2012	$1.56 billion
2013	$1.85 billion
2014	$2.38 billion
2015	$3.15 billion
2016	$3.56 billion
2017	$4.16 billion

42. International expansion has been at the heart of the Company's growth. According to the 2017 Form 10-K, Skechers generates revenues in its international wholesale segment as follows:

> We generate revenues from outside the United States from three principal sources: (i) direct sales to department stores and specialty retail stores through our joint ventures in Asia and the Middle East, as well as through our subsidiaries in the Americas, Europe, and Japan; (ii) sales to foreign distributors who distribute our footwear to department stores and specialty retail stores in select countries and territories across Asia, South America, Africa, the Middle East and Australia; and (iii) to a lesser extent, royalties from licensees who manufacture and distribute our non-footwear products outside the United States.

43. As the Company stated in the 2017 Form 10-K, "[w]e believe that international distribution of our products represents a significant opportunity to increase net sales and profits." Since 2012, net sales in Skechers' international wholesale segment have grown by ***300%***:

Year	International Wholesale Segment Net Sales
2012	$432 million
2013	$478 million
2014	$689 million
2015	$1.09 billion
2016	$1.39 billion
2017	$1.73 billion

44. Defendant Weinberg recognized the significance of Skechers' international wholesale Segment on the Company's February 8, 2018 earnings call, stating that "***[i]nternational wholesale remains our biggest distribution channel***, representing ***41.5%*** of our total sales for the year [2017], while international wholesale and retail combined represented ***50.6%*** for the same period."

45. The Company's international growth has been most pronounced in China. In October 2007, the Company formed a joint venture with family-owned Luen Thai Enterprises, called Skechers China Limited, to sell footwear on the Chinese mainland and Southeast Asia. On the heels of its joint venture with Luen Thai Enterprises, on September 2, 2008 Skechers issued a press release announcing that it had "expanded its operations in Hong Kong and Macau through a joint venture (known as SKECHERS Hong Kong Limited)[.]"

46. As Skechers reported in the 2017 Form 10-K, the Company has "a 50% interest in a joint venture in China and a minority interest in a joint venture in Hong Kong that operate and generate net sales in those countries." Pursuant to the joint venture agreements, "the joint venture partners contribute capital in proportion to their respective ownership interests." These joint ventures are consolidated in Skechers' financial statements.

47. According to a July 2, 2018 article by *China Daily* titled "Athleisure brand SKECHERS sees fast growth on China market," the Company's sales in China have grown 73% annually on average during the past decade. Specifically, according to the article, in 2008 sales volume in China was 74 million yuan ($10.7 million). Recently, Skechers' sales in China have skyrocketed. As noted in a February 8, 2018 Wells Fargo analyst report, "[t]he biggest growth driver of the business over the past few years has been the joint venture in China. Specifically, China generated less than $50 million in revenue in 2013, but reached $575 million in 2017," supported by direct-to-consumer operations, including both owned retail and franchised stores.

48. According to an October 20, 2017 report issued by analysts at Susquehanna Financial Group, "SKX believes China is a $1B business in two to three years and ***could be as large, or larger, than the U.S.*** – a realistic notion considering success thus far, brand strength in China, and investments, which include breaking ground on a new [distribution center] in 3Q18/4Q18."

49. In a March 26, 2018 *China Daily* article, "Fitness craze of Chinese boosts US sports brand," Willie Tan, Skechers' CEO for the Chinese mainland, Hong Kong, and Republic of Korea pointed out that Skechers' "growth rate in the Chinese market in 2017 reached 50 percent year-on-year. It has outpaced the global growth rate, which was 16.9 percent."

50. In the July 2, 2018, *China Daily* article, Mr. Tan declared his expectation that Skechers would surpass its 2017 sales numbers in China in 2018, stating that "[b]ased on the current growth momentum, I'm very positive that our sales in China will top 15 billion yuan this year." According to *China Daily*, to further increase its sales in China, Skechers signed agreements with retail brands and commercial center operators including Belle International, Wangfujing Group and Beijing Capital Group in June 2018.

51. The Company's explosive sales growth is attributable to its mono-branded retail store expansion, as well as its direct-to-consumer e-commerce business. Net sales in Skechers' retail segment, which includes the Company's e-commerce sales, have grown by ***148%*** since 2012:

Year	**Retail Segment Net Sales**
2012	$475 million[1]
2013	$565 million
2014	$690 million
2015	$833 million
2016	$972 million
2017	$1.18 billion

[1] Skechers formerly had four reportable segments, separating retail from e-commerce. This figure for 2012 represents the net sales in the Company's retail and e-commerce segments combined.

52. Skechers' e-commerce sales are a major reason for its recent growth in China. According to a March 12, 2018 report by analysts at the Buckingham Research Group, "e-commerce . . . now represents more than 25% of the revenue in China."

Skechers' Expansion Is Fueled by Tremendous SG&A Expense Growth

53. While Skechers' net sales have been on a consistently upward trajectory, a fundamental component of the Company's explosive sales growth is the massive increase in its non-production related expenses that the Company has incurred.

54. Mono-branded retail operations, such as those employed by Skechers in China, require significant expense in store fixturing and build-out for both joint venture and partnership stores, as well as Company-owned stores. Additionally, in a market dominated by mono-branded stores and e-commerce, like China, significant logistical challenges exist over a third-party market where economies of scale occur by virtue of larger shipments to retail-partner warehouses. A greater volume of smaller shipments to each store or even direct-to-consumer homes is less cost-effective than fewer, but much larger, shipments to a third-party or chain retailer's distribution center.

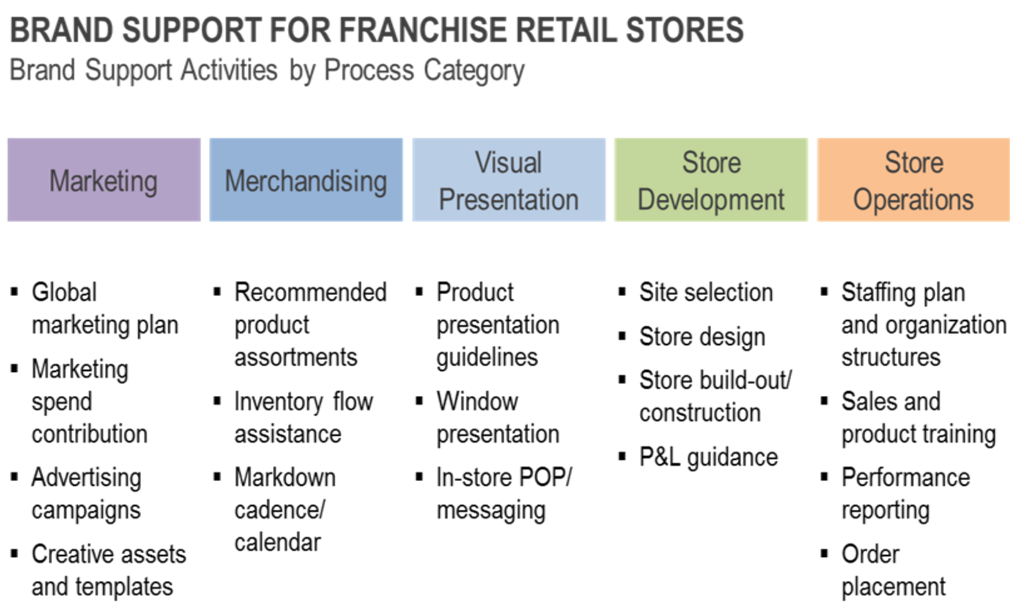
55. According to the 2017 Form 10-K, Skechers' selling expenses "consist primarily of the following: sales representative sample costs, sales commissions, trade shows, advertising and promotional costs, which may include television and ad production costs, and point-of-purchase costs." Point-of-purchase ("POP") costs may include store fixturing for mono-branded stores being opened by partners, especially in China where Skechers-only stores dominate. POP materials require time to source and produce and are often based on a brand's global campaign and strict standards.

56. The Company defines its general and administrative expenses as follows:

> General and administrative expenses consist primarily of the following: salaries, wages and related taxes, various overhead costs associated with our corporate staff, stock-based compensation, domestic and international retail operations, non-selling

related costs of our international operations, costs and expenses related to our distribution network for our Rancho Belago, European and other foreign distribution centers, professional fees related to both legal and accounting services, insurance, depreciation and amortization, asset impairment and legal settlements, among other expenses. Our distribution network-related costs are included in general and administrative expenses and are not allocated to specific segments.

57. Supporting franchise retail can be SG&A expense intensive and requires expenses to be made for, among others, the following:



* Based on Skechers Retail Licensing Booklet

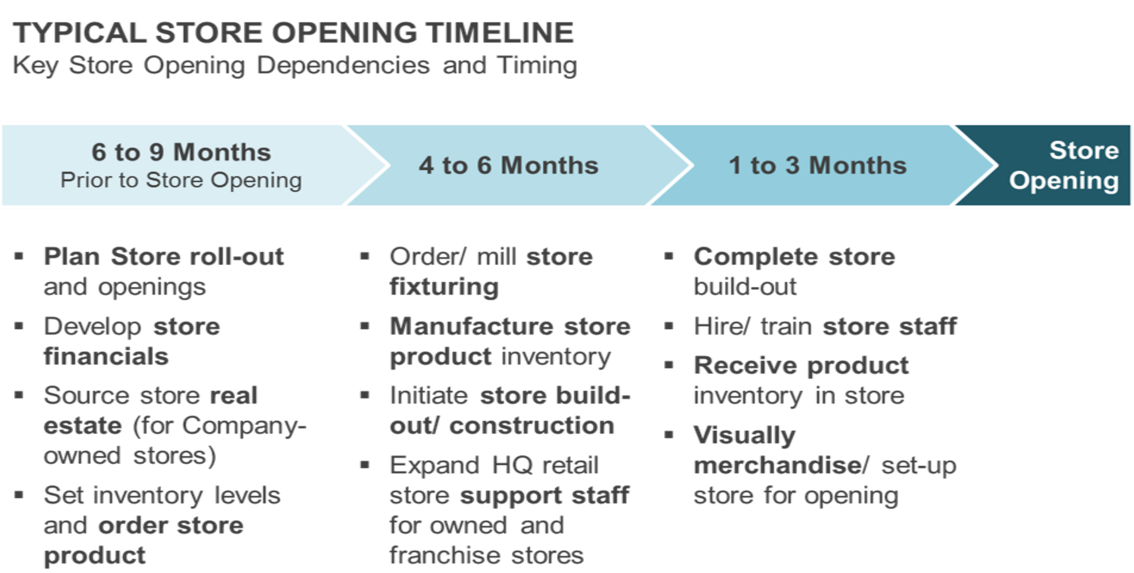
58. In order to achieve its consistently skyrocketing sales numbers, Skechers has spent billions of dollars on the necessary infrastructure to drive such growth. Planning for growth in China's primarily mono-branded and direct-to-consumer business requires careful infrastructure planning and critical associated financial forecasting.

59. In China, for example, because Skechers does not yet have its own distribution center, the Company is heavily reliant upon expensive third party operational solutions just to service both franchised and company-owned stores, as well as to ship to online customers. Mono-branded Company stores and e-commerce are the primary form of distribution in China. Both are more

operationally and organizationally more complex than in markets with less branded retail, *i.e.*, distributor controlled markets (Southeast Asia and Middle East) and those with third party retail (U.S.A.). As such, dependency on a third party logistics partner in China for product fulfillment adds additional cost on a per unit basis.

60. Defendants knew, or recklessly disregarded, the magnitude of the Company's SG&A expenses during the Class Period, in particular in China. For example, store growth is something that is known well in advance. Typical retail store roll-outs are planned at least six to nine months prior to store openings. Developing store financials, real estate sourcing and product orders require long lead times.

61. These events are not typically done in the quarter in which a store opens, but rather upwards of ***three*** quarters in advance. For example, as set forth below, the development of store financials and ordering of store product can take place as much as nine months before a store actually opens. In addition, store construction and the ordering of store fixtures can begin between four and six months in advance. Finally, stores receive their products and begin the hiring and training of staff between one and three months prior to opening.



62. The extensive planning for store roll-outs highlights Defendants' knowledge. These events (and related costs) apply to both Company-owned and third party stores, which use Skechers' branded store fixturing and POP. In addition, Skechers' third party logistics partner would need to be advised in advance to ensure capacity and optimize efficiency. As explained in a December 11, 2017 report issued by analysts at Cowen and Company, "[t]he sophistication of [Skechers'] international business is robust as ***management has inventory insight globally into every pair, with daily and weekly updates from its subsidiaries, JVs and franchisees while SKX lead times are among the best in the industry at 90 to 120 days and should continue to improve***."

63. Thus, Defendants had a direct window into the status of the Company's operations abroad. Skechers highlights its close relationships with retail partners to best leverage inventory levels on a style, color, and size basis. This type of insight into future inventory needs and product flow would have been employed in China to optimize Skechers' mono-branded stores.

64. As set forth in the following chart, as Skechers has increased its global footprint, its SG&A expenses have increased substantially, growing ***135%*** from 2012 to 2017:

Year	**SG&A Expenses**
2012	$668.1 million
2013	$732.9 million
2014	$871.9 million
2015	$1.085 billion
2016	$1.278 billion
2017	$1.573 billion

65. Prior to the Class Period, Skechers' SG&A expense growth continually outpaced its net sales growth. This frequently led to declines in the Company's reported earnings from operations compared to the same period for the prior year:

Quarter	Growth in SG&A Expenses (vs same quarter prior year)	Growth in Net Sales (vs same quarter prior year)	Earnings from Operations (vs same quarter prior year)
2Q 2016	20.3%	9.7%	-10.6%
3Q 2016	12.2%	10.1%	8.1%
4Q 2016	19.3%	5.8%	-48.3%
1Q 2017	20.3%	9.6%	-10.2%
2Q 2017	26.9%	16.9%	-14.0%

66. As Skechers continued to report year-over-year declines in earnings from operations, analysts became keenly focused on the Company's SG&A expense growth and, in particular when Skechers would start growing its sales faster than expenses – *i.e.*, "leverage" its SG&A expenses. For example, in a February 9, 2017 report, just as Skechers reported a 48.3% decline in earnings from operations for the fourth quarter of 2016 compared to the fourth quarter of 2015, analysts at Macquarie Research issued a report stating that, for Skechers, "***[w]e think the million dollar question for 2017 is where SG&A goes***."

67. Likewise, Macquarie Research analysts issued a July 20, 2017 report stating, "***the question on everyone's mind*** . . . ***when will all the incremental SG&A taper***? We anticipate 2018 will begin to leverage intl G&A with continued focus on 4 key markets: China, Latin America, Japan and Korea."

68. In a July 21, 2017 report, analysts at Morgan Stanley stated "SKX continues to make steady top-line progress. ***However, sharply rising FY17 SG&A means not only does SKX have to deliver double-digit FY18 sales growth, but now it also must significantly delever expenses to meet expectations***. This extra obstacle unfavorably impacts the risk/reward in our view."

Skechers Reports Year-Over-Year Earnings from Operations Growth for the First Time Since the Third Quarter of 2016

69. On October 19, 2017, after the market closed, Skechers announced its financial results for the third quarter of 2017. The Company reported a strong third quarter, posting net sales of $1.095 billion, which it touted as "a new quarterly record," and EPS of $0.59, which beat its own estimate of a range of $0.42 to $0.47. Significantly, the Company reported year-over-year earnings from operations growth for the first time since the third quarter of 2016.

70. On the heels of positive earnings from operations results, during the Company's earnings call held the same day, Defendant Weinberg was asked by an analyst from Morgan Stanley about the current expectations for the Company's SG&A expenses going forward. Specifically, the analyst asked, "where do you think you might end up for dollars in terms of just total SG&A, selling expenses plus G&A, when you get into -- through '18?" Weinberg responded, stating, *inter alia*, "***I would tell you the anticipation here is that the rate of growth, certainly in the G&A piece, will come down from this year as we end the year. There are no new pieces to pick up***."

71. Also on the call, an analyst from Citigroup asked Defendant Weinberg if there were "any changes to your previous expectation that SG&A growth should start to slow down starting in Q1 of next year?" In response, Weinberg stated that the Company's slowdown of its SG&A expense growth will "***certainly continue into the first quarter***."

72. While the Company reported that SG&A expenses grew at a higher percentage year-over-year than net sales in the third quarter, Defendants' statements, along with Skechers' return to earnings from operations growth, gave analysts covering the Company confidence that Skechers was finally beginning to get its enormous SG&A expenses under control.

73. The next day, Morgan Stanley analysts issued a report indicating their understanding that Skechers' SG&A expense growth rate problems were now a thing of the past. Specifically, the

report stated that "[f]ears around elevated SG&A spending has been a main concern. However, SKX's 3Q result and ***4Q guide suggests its SG&A investment cycle is ending and the SG&A growth rate is inflecting downward*** post Q2's peak 27% level. ***With this overhang going away***, near-term downside risk has decreased in our view."

74. In addition, analysts at Macquarie Research published a report the same day expressing their optimism that Skechers was on its way to begin leveraging its SG&A expenses. That report stated, in pertinent part, as follows:

> The most important takeaway tonight is ***there is line-of-sight for Skechers to finally start leveraging SG&A***. The stock has traded range bound (albeit a wide one) for the better part of a year, as **everyone was sharply focused on outsized expenses dampening the operating margin**. No matter how well the top line did, with double-digit growth along with gross margin leverage, SKX couldn't catch a break. But now we anticipate the stock will break out as all three components of the P&L start to work in tandem.

75. Also that same day, analysts at Susquehanna Financial Group stated that "SKX's results are evidence that SKX is not the one trick pony it once was. SKX handily beat 3Q17 revenue, gross margin, and overall EPS expectations while ***keeping SG&A well controlled***." Susquehanna also stated that "Sales benefits from accelerated investments in recent quarters are materializing right at the time that investment growth is beginning to normalize (***JV/China investments normalize***), creating a favorable set-up for 2018. ***Management expects, and we agree, that SG&A will lever in 2018***."

Defendants Report SG&A Leverage, but Lead Investors to Believe that SG&A Expense Growth Will Continue to Moderate

76. On February 8, 2018, Skechers issued a press release announcing its financial results for the fourth quarter of 2017 and full year, the periods ended December 31, 2017. The Company reported "[r]ecord sales of $970.6 million, an increase of 27.0 percent" from the fourth quarter of

2016 and adjusted diluted earnings per share of $0.21, both of which surpassed the Company's previously issued guidance.

77. While Skechers' SG&A expenses grew by over 21%, the Company reported a 27% increase in net sales compared to the fourth quarter of 2016 and a 96.9% increase in its earnings from operations compared to the same period. Accordingly, the Company reported a long-awaited return to SG&A "leverage." As noted in a Wells Fargo analyst report issued the same day, "[n]otably, the ***company generated SG&A leverage for the first time in almost 2 years*** (190bps improvement YoY)."

78. Defendants assured the market that the SG&A leverage Skechers achieved during the fourth quarter was not an anomaly and was set to continue. For example, later that day, on Skechers' earnings call, Defendant Vandemore stated that in the first quarter of 2018 "***from an SG&A perspective, <u>we think it will begin to show the leverage that we've experienced in Q4</u>***. . . ."

79. Following the release of the Company's fourth quarter results and the February 8, 2018 earnings call, several analysts issued reports indicating their impression that Skechers finally had begun moderating its SG&A spending. For example, on February 9, 2018, Susquehanna Financial Group issued a report stating, in pertinent part, as follows:

> On SG&A, the sizable 190 bps drop was the first decrease since 1Q16 as ***SKX has moved beyond the tail end of its heavy investment phase and is now allowing SG&A growth to moderate***. . . . SG&A is also expected to lever, but management was unclear to what extent. We believe SKX has likely hit an inflection point and ***<u>the SG&A leverage experienced in 4Q17 will continue for the foreseeable future (at least through FY18 and possibly into FY19)</u>***. . . . ***We believe we will see meaningful SG&A leverage through FY18***. History has taught us not to play down the risk of overspending at SKX. ***However, we believe SKX management is taking a more disciplined SG&A approach*** and investments are proving worthwhile given the tremendous opportunity in International markets.

80. In addition, analysts from Cowen and Company issued a report on February 8, 2018 which stated, in pertinent part, as follows:

> Q1 Outlook Looks Healthy
>
> Q1 gross margin is expected to be stable to slightly better yr/yr (we est. +115bps) and ***SG&A leverage should continue from Q4:17***.

81. Moreover, analysts at Macquarie issued a report including their positive outlook for Skechers' SG&A expense moderation in the first quarter of 2018 and for the full year, in pertinent part, as follows:

> SG&A: Moving down the P&L, we were pleased to see SG&A leverage this quarter. Selling expenses improved by 120bps as the ***company gains efficiencies of scale***. G&A also improved 70bps. On a dollar basis, G&A was up $67.4M with the majority of this supporting international growth. China alone represented $22.1M – in part to support the record breaking Singles Day performance. ***Looking ahead – we are modelling SG&A margin to improve 40bps for 1Q18 and 80bps for FY18***.

82. Following the announcement of Skechers' results for the fourth quarter and fiscal year 2017, Defendants continued to give the false impression to the market that they were concentrated on controlling Skechers' expenses. On March 1, 2018, Skechers filed the 2017 Form 10-K, signed by Defendants Greenberg, Weinberg, and Vandemore, among others, which stated that, "***[d]uring 2017, we continued to focus on managing our balance sheet and bringing our marketing expenses and general and administrative expenses in line with expected sales***."

83. But, as would later be revealed, Defendants were solely focused on growing Skechers' business without any regard at all to the massive SG&A expenses necessary to fuel the Company's increasing sales numbers. The Company needed to open more stores to grow sales in China. As a result, on Skechers' February 8, 2018 earnings call, Defendant Weinberg reported that during the fourth quarter of 2017, "China opened 74 freestanding Skechers retail stores primarily through franchisees, and with the closing of 10, they ended the fourth quarter with 796 Skechers stores. At quarter end, we had approximately 2,446 points of sale in China and a strong e-commerce business, which grew double digits in the fourth quarter."

84. Planning for these store openings would have occurred two to three quarters in advance of actual sales materializing from those new stores, such that Defendants knew, or were reckless in not knowing, of the extent of the Company's SG&A expenses.

85. Analysts covering Skechers continued to be fooled by Defendants' representations about the Company's moderation of its SG&A expense growth. After hosting meetings with Defendants Weinberg and Vandemore, on March 12, 2018, with the first quarter of 2018 nearly complete, the Buckingham Research Group issued a report stating, in pertinent part, as follows:

> ***SG&A growth finally slowing. Management expects to grow SG&A below the rate of sales growth in FY18***. The major change being that SKX won't have incremental costs associated with the onboarding of new major markets and it will begin to annualize some investments in software costs. While SKX will continue to spend to achieve its growth objectives, ***it has flexibility to reduce spending on advertising and international infrastructure if conditions change***.

86. And, in an April 13, 2018 preview report for the first quarter of 2018, analysts at Susquehanna Financial, explained the reasoning behind their belief that Skechers' SG&A expense leverage would continue in the first quarter, stating, in pertinent part, as follows:

> **SG&A Leverage to Continue**: We expect SG&A growth to continue to moderate as SKX's heavy investments over the last three years begin to slow. The deceleration will come primarily from: 1) a leveling off of marketing spend in Asia, after a ramp-up in late FY16 and through FY17; and 2) a falloff of costs associated with conversion of the South Korean business from a distributor to a joint venture. ***We do not foresee any major investments ahead for SKX that have not already been announced.*** Investment for the distribution center in China, which is expected to cost between $125M- $150M and expected to break ground in late FY18, is already baked into to our forecasts. ***We believe the SG&A leverage experienced in 4Q17 (~185 bps) will continue at least through FY18***. Operating margin expanded ~200 bps in 4Q17.
>
> As such, the Susquehanna analysts noted that they were "forecasting SG&A to lever by ~100 bps" for the first quarter.

Defendants Shock the Market by Reporting Significant SG&A Deleverage for the First Quarter of 2018, but Assure Investors that Leverage Is on the Horizon

87. On April 19, 2018, following the close of the market, Skechers issued a press release announcing its financial results for the first quarter of 2018, ended March 31, 2018. Skechers yet again announced a new record for quarterly sales – this time $1.25 billion.

88. Defendants, however, reported substantial SG&A expense ***deleverage*** for the quarter, in direct contrast to what they had told the market to expect. Specifically, for the first quarter, the Company reported SG&A expenses totaling $439.8 million – a ***23.4%*** increase from the first quarter of 2017 – compared to a ***16.5%*** increase in net sales over the same period.

89. According to the press release issued by Defendants, the 23.4% increase in SG&A expenses was "due to an additional $72.9 million in general and administrative expenses" more than 50% of which, or $37.4 million, was "to support international growth in the Company's joint venture and subsidiary businesses."

90. The SG&A expenses also included "$18.3 million associated with operating 73 additional Company-owned Skechers stores" and a $10.6 million increase in selling expenses that the Company stated were "primarily due to higher international advertising expenses."

91. In response to this disappointing news, the price of Skechers common stock declined from $42.08 per share on April 19, 2018 to close at $30.70 per share on April 20, 2019 – a decline of approximately $11.38 per share, more than 27%, on high trading volume of more than 37 million shares trading. This was more than 12.5 times greater than the average daily trading volume during the Class Period. But Skechers' stock price remained artificially inflated as Defendants falsely represented when they learned about the higher SG&A expenses and continued to mislead the market as to the true extent of Skechers' SG&A expense growth going forward.

92. On the Company's earnings call held later that same day, Defendants attributed much of the spending growth to China. Defendant Weinberg reported that China grew "over 30%" during the first quarter and stated that "China is anticipating such strong growth that we had to pump up expenses to handle the business that's coming, and a bigger piece of that business is online, which has more infrastructure build because of the uniqueness of shipping one pair at a time for that, the size they are."

93. Defendant Weinberg noted that 79 third party owned stores, including 21 in China opened during the first quarter. He further stated "China remains a dominant force in our Asia business, with approximately 4.4 million pairs shipped in the quarter, a retail base of approximately 800 Skechers freestanding stores and 2,400 points of sales and a strong e-commerce business, which grew by high double digits in the first quarter."

94. On the earnings call, an analyst from Susquehanna Financial Group pointed out that Defendants had just recently guided SG&A leverage for the first quarter, but were now reporting significantly increased G&A expense growth. The following exchange took place:

> **Samuel Marc Poser -** *Susquehanna Financial Group, LLP, Research Division - Senior Analyst*
>
> [A]bout 6 weeks ago, or whenever you announce, or 8 weeks ago, when you announced Q4, ***you guided the SG&A to a certain level, and the G&A came in well higher***. And I guess, the question is, was -- how much of the incremental spend was last-minute to support, like sort of when did you know that your -- I mean, when did this arise, the need to -- for this additional spend?
>
> **David Weinberg -** *Skechers U.S.A., Inc. - Executive VP, COO & Director*
>
> Well, ***it was a later event***. As John said, it has to do with the distribution cost. And, by far, March was a ***much bigger month and a much bigger by average, which is why we were higher than our original guidance as far as business was concerned***, both in the U.S., and Europe and in China, which had a bigger piece coming through their franchises and their online business. It put a lot of pressure on our structure, we had significant amounts of increased labor costs, time we had to rent some additional space so we could process on a more timely basis and get things out.

95. Defendant Weinberg's explanation for the Company's higher G&A expense growth during the first quarter was false and misleading. Defendants would have long known about these expenses, because sales planning is a long-term activity that transcends beyond a single quarter. The Company boasts its strong relationship with its partners to carefully monitor and forecast inventory needs. In addition, with respect to China, increased inventory demand by Skechers' owned and franchised retail stores equates to higher inventory distribution and logistics expense.

96. Also on the April 19, 2018 earnings call, Defendant Weinberg stated that "***we do believe that*** . . . ***will be able to again start to leverage again in Q3. It should be a very positive time for us***," but failed to disclose that the Company was already incurring substantial SG&A expenses in the second quarter of 2018, in particular in China, such that the Company was once again poised to report SG&A expenses growing significantly faster than sales and that this was going to continue for the foreseeable future.

97. The market, however, understood from Defendants' representations that Skechers' SG&A expense growth would stabilize in the second quarter of 2018 – even in Asia. For example, analysts from Macquarie Research issued a report on April 19, 2018, stating, in pertinent part, as follows:

> SG&A: SG&A was the primary focus of the call, up 200bps YoY in 1Q18 driven by a 210bps increase in G&A YoY. Domestic G&A was up $17MM driven by distribution and headcount increases. We believe for 2Q this will normalize but still be up. ***International G&A was up $37MM – about 2/3 of this was driven by the Asia JVs, particularly China and Korea. Similar to domestic G&A, we believe it will be up but normalize a bit in 2Q***. For the full year, we are modelling SG&A margin at 38.2% versus last year's 37.8%.

Defendants Reveal Massive SG&A Deleverage for the Second Quarter and Make Clear that They Are Simply Growing the Company at All Costs, Without Any Regard for the Bottom Line

98. On July 19, 2018, after the market closed, Skechers issued a press release announcing its second quarter 2018 financial results. Defendants stunned the market by once again revealing significant SG&A deleverage for the quarter. Specifically, the Company reported "another record sales quarter," with sales totaling $1.134 billion, but reported tremendous SG&A expenses totaling $484.9 million – a ***19.7%*** increase from the second quarter of 2017 – compared to a ***10.6%*** increase in net sales over the same period.

99. In the press release, Skechers stated that almost half of the increase in general and administrative expenses, or $29.4 million, was "to support continued expansion" in China. The general and administrative expenses also included $19.8 million related to corporate and domestic expenses, of which $7.0 million was for increased domestic warehouse and distribution costs and $6.2 million was for legal costs.

100. As a result of this increase in SG&A spending, Skechers reported diluted earnings per share of just $0.29, missing its own guidance range by $0.09 - $0.14, as well as a decrease in earnings from operations of 5.7%, and net earnings of only $45.3 million, which represented a decline of 23.9% compared to the second quarter of 2017.

101. The same day, on Skechers' earnings call, Defendant Weinberg reported that Skechers opened 107 third party owned stores during the quarter, 41 of which were in China. Defendant Vandemore acknowledged the direct link between the Company's increased SG&A spending during the second quarter and its expansion in China, stating that "[t]his increase reflects our continued investment in our long-term global growth initiatives and included $29.4 million to support continued double-digit growth in China." Altogether, during the Class Period, Skechers opened a total of ***136*** third party owned stores in China.

102. Also on the earnings call, Defendant Weinberg was asked by an analyst from Cowen and Company about the Company's lack of profits amidst consistent top line growth. Defendant Weinberg made it abundantly clear that, in contrast to their prior statements, Defendants were not in any way concerned with increasing the Company's profits, or managing its expenses, and were solely focused on top line growth:

> **John David Kernan -** *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*
>
> All right. So I guess, my final question is a bigger picture question. There has been well over $1 billion in total top line growth. ***The past couple of years just there has not been much growth in EBIT. So I'm just wondering at what point do you think you will trade top line growth with ability to start growing top line in a more significant rate***? Do you think – if you pull back on G&A expenses, do you think the top line would decelerate significantly in line with that?
>
> **David Weinberg -** *Skechers U.S.A., Inc. - Executive VP, COO & Director*
>
> ***<u>We just don't necessarily think that way</u>. <u>We're into growth</u>. <u>We think that transition to sacrificing top line growth for EBIT will happen when a marketplace tell us – as we get into – closer to a saturation point</u>. <u>Right now, we are built for growth</u>. <u>We have the capital for growth. We wouldn't leave anything on the table</u>***. . . .

103. Analysts reacted negatively to the news disclosed on July 19, 2018 that the Company's SG&A expense growth had outpaced that of net sales, despite Defendants' regular calls for moderation of expense growth, and that Defendants were focused on growing the Company's top line ahead of improving profitability. For example, a report issued by Wells Fargo the same day stated, in pertinent part, as follows:

> **Q2 EPS Well Below Expectations, Driven By SG&A (What Else Would It Be?)** . . . While management attributed the miss to a $6 million legal settlement and a higher-than-expected tax rate, these two factors only accounted for $0.04 of the downside (meaning that they still would have missed by $0.05-$0.10). As has been the case recently, SG&A growth remains significantly elevated, growing 20% in the quarter. ***<u>The reason why this is so disappointing is because management consistently communicated in 2017 that expense growth would slow in FY18 and that the company would achieve significant leverage this year</u>***. ***Instead, SG&A deleveraged 200bps in Q1 and 320bps in Q2***.

* * *

> ***Basically, 6 months ago the SKX "story" was predicated on strong double-digit top-line growth (general expectations were for growth in the teens), coupled with a moderation of expense growth resulting in hundreds of basis points of margin expansion (to the 12%-13%)** . . . **Now** . . . **it's unclear if leverage will actually take place next year**. . . .*

104. In addition, analysts at Susquehanna Financial Group issued a report on July 20, 2018, commenting on the Company's increase in SG&A spending for the quarter and Defendants' focus on top line growth over increasing profitability. The report stated, in pertinent part, as follows:

> We are downgrading SKX from Positive to Neutral and reducing our price target from $40 to $26. Our new price target reflects a 12.9x P/E multiple on our reduced estimates Our new multiple is ~1.5 turns below our prior multiple due to: ***1) lack of clarity of when SKX will begin to lever SG&A; 2) worse than expected outlook; and 3) an apparent lack of alignment between shareholders and management.*****The stock's drop of ~25% after hours last night was unfortunately deserved, in our view. Management has put focus on top-line growth ahead of improving profitability. Such top-line focus was highlighted by management's response to a question on last night's earnings call regarding the lack of EBIT growth in relation to revenue growth. FY17 revenue increased 32.3% (~$1B) as compared to FY15, and EBIT increased 5.8% (~$21M) over the same period. Management responded by stating the following: "We just don't necessarily think that way. We're into growth. We think that transition could sacrifice topline growth for EBIT will happen when the marketplace tells us we're getting too close to a saturation point. Right now, we are built for growth; we have the capital for growth, we wouldn't leave anything on the table . . ." We do not believe that SKX is driving top line at the expense of gross margin; gross margin increased ~180 bps in 2Q18**. ***However, we do believe that the company, perhaps, should temper its spending to some degree (SG&A), which may negatively impact sales growth. Skechers' NEO's incentive compensation is based on net sales growth according to the most recent proxy. While we are confident that management continues to work to improve the Skechers' brand, we believe it would be prudent to better align shareholders' and management's interests.***

105. In a July 20, 2018 report, analysts at Cowen and Company discussed the Company's EPS miss resulting from greater than anticipated SG&A expense growth. The report, titled "Investments to Expand in China Pressure Earnings and Sentiment" stated, *inter alia*: "1) SKX reported Q2:18 EPS of $0.29 vs. our estimate and consensus of $0.41, guidance of $0.38-$0.43 and

$0.38 last year. ***The miss was entirely attributable to higher than expected SG&A expense. 2) SG&A de-leverage continues to weigh on earnings***."

106. Similarly, analysts at the Buckingham Research Group issued a report the same day stating that "as evidenced by 2Q results, as well as 3Q guide, costs associated to support growth do not reconcile to market expectations. While we anticipated better opportunities for operating leverage in FY19, ***the magnitude of these near-term expenses has been much greater than expected***."

107. In addition, analysts at UBS issued a report on July 20, 2018, stating, in pertinent part, as follows:

> **SKX's poor 2Q justifies a major stock price drop:**
>
> The downside case scenario around SG&A growth fears played out. ***SKX 2Q SG&A grew ~20%, 640 bps more than expected***. 3Q EPS guidance missed Street expectations by 23%, due largely to SG&A.
>
> * * *
>
> SKX's China wholesale eCom business (Tmall, etc.) is growing better than 44% y/y. However, because this business is growing so fast, ***SKX is requiring expensive, 3rd-party operational solutions to keep up with demand. This point, which we previously did not appreciate, explains much of the negative 2Q & 3Q SG&A surprises and our downward EPS revision***. Looking ahead, SKX is adding China infrastructure to improve efficiency (this is a second SG&A driver). When it comes online, SKX China margins likely improve, but this is not likely until FY20.

108. Also, analysts at Evercore issued a report on July 20, 2018, discussing the Company's surprising announcement of substantial SG&A spending during the second quarter. The report stated, in pertinent part, as follows:

> Clearly, SKX did little to help improve market's concern that it lacked strong financial discipline by posting its ***second consecutive quarter of higher than expected SG&A***, which when combined with higher taxes, a one-time legal settlement, and negative Fx impacts led to a material EPS miss. While SKX delivered solid but in-line +10.6% sales growth driven by a healthy 4.5% global comp all while delivering a robust 200-bp gross margin improvement – both

> typically key determinants to judge brand strength – ***unanticipated SG&A deleverage of 320 bps once again overshadowed the sales gains***.
>
> * * *
>
> While some non-operating factors weighed on EPS (higher tax rate, legal expenses, Fx), the lack of visibility into anticipated spending levels over the next quarter proved to be the biggest issue. We appreciate the growth opportunities and the need to invest behind both the brand and the infrastructure to support it (China, Japan, Europe distribution expansion, South America, further U.S. distribution, etc.). Brand companies investing behind real growth opportunities typically prove to be the best investments in our softlines universe. That said, <u>***the market would like a little more clarity on the balance of those investments to better understand the sales/margin tradeoff to help limit the magnitude of the extreme shocks on both the margin and the share price***</u>. Given the long-tailed growth opportunities for Skechers, we think the market will increasingly assume that SG&A spend will remain at elevated growth levels for the foreseeable future, a healthy transition for shareholders.

109. In response to this disappointing news, the price of Skechers common stock fell from $33.25 per share on July 19, 2018, to close at $26.27 per share on July 20, 2018 – a decline of approximately $7.00 per share, or nearly 21%, on high trading volume of more than 53 million shares trading, more than 18 times greater than the average daily trading volume during the Class Period.

MATERIALLY FALSE AND MISLEADING STATEMENTS AND OMISSIONS MADE DURING THE CLASS PERIOD

110. The Class Period begins October 20, 2017. On October 19, 2017, after the market closed, Skechers announced its financial results for the three months ended September 30, 2017, in a press release, which it filed with the SEC on Form 8-K (the "3Q17 Press Release"). The 3Q17 Press Release stated, in pertinent part, as follows:

> Quarterly **net sales** increased 16.2 percent to $1.095 billion compared to third quarter 2016. The growth was the result of a 25.7 percent increase in the Company's international wholesale business, a 1.4 percent increase in its domestic wholesale business, and an 18.6 percent increase in its Company-owned global retail business with total comp store sales increases of 4.4 percent.
>
> * * *

> Third quarter **selling expenses** increased $21.8 million to $89.6 million, or 8.2 percent of sales, compared to $67.8 million, or 7.2 percent of sales, in the prior year's third quarter. The increase was primarily due to increased advertising expenses of $17.2 million, including $3.6 million to support our international subsidiary business, and an additional $3.5 million in selling commissions from its joint venture in South Korea.
>
> **General and administrative expenses** were $316.9 million, or 28.9 percent of sales, compared to $261.8 million, or 27.8 percent of sales, in the prior year's third quarter. The year-over-year quarterly increase was primarily due to Skechers' focus on long-term global growth. The increases included $18.1 million associated with the Company's 67 additional domestic and international retail stores – 13 of which were opened in the third quarter, and $27.2 million to support its international growth in its joint venture and subsidiary businesses. Domestic wholesale general and administrative expenses in the third quarter increased $9.7 million year-over-year primarily due to increased headcount in the United States to support its brand worldwide, and improvements in its digital operations, as well as the expansion into new categories and brands.
>
> * * *
>
> **Earnings from operations** were $116.5 million or 10.6 percent of net sales, which was an increase of $13.1 million or 12.7 percent over the third quarter of 2016.

While SG&A expenses outpaced net sales growth for the quarter, the Company reported year-over-year earnings from operations growth for the first time since the third quarter of 2016.

111. Following the issuance of the 3Q17 Press Release, Skechers held a conference call on the same day with analysts and investors to discuss the Company's financial performance for the third quarter of 2017. Defendant Weinberg participated in the call and reiterated the Company's financial results as set forth in the 3Q17 Press Release.

112. During the call, Defendant Weinberg was asked by an analyst from Citigroup about the Company's SG&A growth going into the fourth quarter of 2017 and the first quarter of 2018. The following exchange took place:

> **Corinna Gayle Van der Ghinst** - *Citigroup Inc., Research Division - VP and Small-Cap and Mid-Cap Analyst*

> Okay. And then, could you provide us with your updated SG&A expectations for the fourth quarter? ***Are there any changes to your previous expectation that SG&A growth should start to slow down starting in Q1 of next year***?
>
> **David Weinberg - Skechers U.S.A., Inc.** - *CFO, COO, EVP and Director*
>
> Yes. I actually think it starts to slow down a little bit in Q4 because we will -- the biggest impact to that would have been Korea and that will start to lap it in the fourth quarter so -- to that degree. So I would anticipate, on a year-over-year basis, we've actually slowed down the growth a little bit of the expenses.
>
> **Corinna Gayle Van der Ghinst** - *Citigroup Inc., Research Division - VP and Small-Cap and Mid-Cap Analyst*
>
> Okay. Great. And then, my follow-up -- sorry.
>
> **David Weinberg - Skechers U.S.A., Inc.** - *CFO, COO, EVP and Director*
>
> Yes. ***All I said was it will certainly continue into the first quarter***. I think that's where the big possibilities are.

113. The statement referenced above in ¶112 that Skechers' slowdown in SG&A expense growth would "certainly continue into the first quarter" was materially false and misleading when made, because it failed to disclose and/or misrepresented the following adverse facts that Defendants knew, or recklessly disregarded, at the time the statements were made:

(a) that Defendants were solely focused on growing Skechers' top line, particularly in the Company's international segment, without any regard to the SG&A expenses that were necessary to achieve an increase in sales numbers;

(b) that the Company was heavily reliant on costly third party operations in international markets like China, where it does not have its own distribution center, to sustain this growth. These third party operations add additional costs on a per unit basis such that Defendants could reasonably expect that the Company's SG&A expenses would continue to rise disproportionately to its sales growth as Skechers' international expansion progressed;

(c) that Skechers was in the process of rolling out hundreds of third party and Company-owned stores, the expenses of which are planned for well in advance of store openings. Given the long planning process associated with rolling out stores, which includes, among other things, developing store financials, real estate sourcing and product orders, Defendants would understand that the Company's SG&A expenses would continue to increase at a higher rate than its net sales as more store openings took place; and

(d) as a result of the foregoing, despite Defendants' representations to the contrary, Skechers' SG&A expenses were not set to slow down during the first quarter of 2018.

114. Also on the call, Defendant Weinberg was asked by an analyst from Morgan Stanley about the Company's current SG&A expense outlook for 2018. His exchange with the analyst was, in pertinent part, as follows:

> **Jay Daniel Sole** - *Morgan Stanley, Research Division - Executive Director*
>
> And then the other question is on -- just going back to SG&A for next year, is it possible to put a finer point on where you think you might land in terms of dollars given that you -- given what you know about your store opening plans, the distribution center in China, which I assume is continuing to move forward, where do you think you might end up for dollars in terms of just total SG&A, selling expenses plus G&A, when you get into -- through '18?
>
> **David Weinberg** - *Skechers U.S.A., Inc. - CFO, COO, EVP and Director*
>
> We haven't finished forecasting all of '18. I will tell you the rate of growth was slow, but a lot of that is dependent what our potential top line is, and we pick up the pace. So currently, we're about to pick up the pace in India, which is starting to grow very, very well for us. We're past our 100th store, and they've turned very profitable for the business. They had -- that's one of the big changes for this quarter as well. We anticipate South America -- our stores are starting to comp well, so we will be revisiting how many store openings we can have in South America, particularly Peru and Colombia. Europe has picked up well. We're looking for more stores on the continent. So we really don't have a final number. We're trying to reforecast now with this growth and brand acceptance. From the wholesale end, it will come depending on how big it grows. China would get to $500 million. We have -- besides the distribution center, we have significant overhead just to keep running the business to grow at that level. And after we get finished with Singles' Day, we'll probably reforecast China and Southeast Asia for next year and come up

> with a better budget. So I would tell you by the end of -- by the time we get on to the call for our fiscal year end, we'll have a better idea of real dollar expenses. ***I would tell you the anticipation here is that the rate of growth, certainly in the G&A piece, will come down from this year as we end the year. There are no new pieces to pick up***.

115. The statements referenced above in ¶114 that the "rate of growth certainly in the G&A piece will come down from this year as we end the year" and that "there are no new pieces to pick up," were materially false and misleading when made, because it failed to disclose and/or misrepresented the following adverse facts that Defendants knew, or recklessly disregarded, at the time the statements were made:

(a) that Defendants were solely focused on growing Skechers' top line, particularly in the Company's international segment, without any regard to the SG&A expenses that were necessary to achieve an increase in sales numbers;

(b) that the Company was heavily reliant on costly third party operations in international markets like China, where it does not have its own distribution center, to sustain this growth. These third party operations add additional costs on a per unit basis such that Defendants could reasonably expect that the Company's SG&A expenses would continue to rise disproportionately to its sales growth as Skechers' international expansion progressed;

(c) that Skechers was in the process of rolling out hundreds of third party and Company-owned stores, the expenses of which are planned for well in advance of store openings. Given the long planning process associated with rolling out stores, which includes, among other things, developing store financials, real estate sourcing and product orders, Defendants would understand that the Company's SG&A expenses would continue to increase at a higher rate than its net sales as more store openings took place; and

(d) as a result of the foregoing, despite Defendants' representations to the contrary, Skechers' general and administrative expenses were not set to come down in 2018.

116. Defendant Weinberg was asked by an analyst from Wedbush Securities to elaborate on the Company's outlook for leveraging its SG&A expenses in 2018. His exchange with the analyst was, in pertinent part, as follows:

> **Christopher Svezia** - *Wedbush Securities Inc., Research Division - MD*
>
> Just want to go back to a question from earlier. When you talked about SG&A growth as you start to think about next year, is there a scenario whereby you don't leverage? In other words, this year you're growing 15% and you're deleveraging roughly 200 basis points or so on SG&A. Is there a revenue growth rate, given the thought process around some investments in some markets, whereby you wouldn't leverage? Or is it just next year, under most scenarios, you'll leverage G&A expenses?
>
> **David Weinberg** - *Skechers U.S.A., Inc. - CFO, COO, EVP and Director*
>
> Yes. I'm not a person that would tend to say never, ***but I think your last characterization of -- for the most part, that most of the scenarios are positive leverage, I think that's correct***.

117. The statement referenced above in ¶116 that "most of the scenarios" for Skechers' SG&A expenses in 2018 "are positive leverage" was materially false and misleading when made, because it failed to disclose and/or misrepresented the following adverse facts that Defendants knew, or recklessly disregarded, at the time the statements were made:

(a) that Defendants were solely focused on growing Skechers' top line, particularly in the Company's international segment, without any regard to the SG&A expenses that were necessary to achieve an increase in sales numbers;

(b) that the Company was heavily reliant on costly third party operations in international markets like China, where it does not have its own distribution center, to sustain this growth. These third party operations add additional costs on a per unit basis such that Defendants could reasonably expect that the Company's SG&A expenses would continue to rise disproportionately to its sales growth as Skechers' international expansion progressed;

(c) that Skechers was in the process of rolling out hundreds of third party and Company-owned stores, the expenses of which are planned for well in advance of store openings. Given the long planning process associated with rolling out stores, which includes, among other things, developing store financials, real estate sourcing and product orders, Defendants would understand that the Company's SG&A expenses would continue to increase at a higher rate than its net sales as more store openings took place; and

(d) as a result of the foregoing, despite Defendants' representations to the contrary, Skechers was set to experience significant SG&A deleverage in 2018.

118. On November 3, 2017, Skechers filed its quarterly report for the period ended September 30, 2017, with the SEC on Form 10-Q (the "3Q17 Form 10-Q"), which was signed by Defendant Weinberg. The 3Q17 Form 10-Q also included signed certifications by Defendants Greenberg and Weinberg, pursuant to the Sarbanes-Oxley Act of 2002 ("SOX certifications") attesting to the accuracy of the Company's financial reporting, and the design, strength and effectiveness of Skechers' disclosure controls and procedures.

119. With respect to the Company's management of expenses, the 3Q17 Form 10-Q stated, in pertinent part, as follows:

> During the remainder of 2017, we intend to focus on: (i) continuing to develop new lifestyle and performance product at affordable prices to increase product count for all customers, (ii) ***continuing to manage*** our inventory and ***expenses to be in line with expected sales levels***, (iii) growing our international business, and (iv) strategically expanding our retail distribution channel by opening another 12 to 15 Company-owned retail stores during the remainder of the year.

120. The statement referenced above in ¶119 that Defendants "intend[ed] to focus on . . . continuing to manage . . . expenses to be in line with expected sales levels" was materially false and misleading when made, because it failed to disclose and/or misrepresented the following adverse facts that Defendants knew, or recklessly disregarded, at the time the statements were made:

(a) that Defendants were solely focused on growing Skechers' top line, particularly in the Company's international segment, without any regard to the SG&A expenses that were necessary to achieve an increase in sales numbers;

(b) that the Company was heavily reliant on costly third party operations in international markets like China, where it does not have its own distribution center, to sustain this growth. These third party operations add additional costs on a per unit basis such that Defendants could reasonably expect that the Company's SG&A expenses would continue to rise disproportionately to its sales growth as Skechers' international expansion progressed;

(c) that Skechers was in the process of rolling out hundreds of third party and Company-owned stores, the expenses of which are planned for well in advance of store openings. Given the long planning process associated with rolling out stores, which includes, among other things, developing store financials, real estate sourcing and product orders, Defendants would understand that the Company's SG&A expenses would continue to increase at a higher rate than its net sales as more store openings took place; and

(d) as a result of the foregoing, despite Defendants' representations to the contrary, Defendants were not focused on managing the Company's expenses to be in line with expected sales levels.

121. On February 8, 2018, after the market closed, Skechers issued a press release announcing its financial results for the fourth quarter of 2017 and full year, the periods ended December 31, 2017, in a press release, which it filed with the SEC on Form 8-K (the "2/8/18 Press Release").

122. With respect to the Company's fourth quarter of 2017, Skechers reported "[r]ecord sales of $970.6 million, an increase of 27.0 percent" from the first quarter of 2016 and adjusted

diluted earnings per share of $0.21 – both of which exceeded its previously issued guidance of $860 to $885 million and $0.09 to $0.14, respectively.

123. In addition, in the 2/8/18 Press Release, Skechers reported a 21.6% increase in SG&A expenses compared to the fourth quarter of 2016 and a 96.9% increase in its earnings from operations compared to the same period.

124. The same day, Skechers held a conference call with analysts and investors to discuss the information reported in the 2/8/18 Press Release. Defendants Weinberg and Vandemore participated in the call and reiterated the Company's financial results as set forth in the 2/8/18 Press Release.

125. Also during the conference call, Defendants Weinberg and Vandemore were asked by an analyst from Citigroup about Skechers' international advertising. That exchange was, in pertinent part, as follows:

> **Corinna Gayle Van der Ghinst** - *Citigroup Inc., Research Division - VP and Small-Cap and Mid-Cap Analyst*
>
> Okay. Great. And sorry, if I could sneak in one follow-up as well. You mentioned the international advertising that you guys added on this quarter. How are you guys thinking about advertising as a percent of sales going forward as you continue to extend in international? And can you tell us what it was as a percent of sales in fiscal '17 as well?
>
> **John M. Vandemore** - *Skechers U.S.A., Inc. - CFO*
>
> We don't have – we're not giving international percentage. I mean, I think the most remarkable thing about the quarter was. . . .
>
> **Corinna Gayle Van der Ghinst** - *Citigroup Inc., Research Division - VP and Small-Cap and Mid-Cap Analyst*
>
> Like in total.
>
> **John M. Vandemore** - *Skechers U.S.A., Inc. - CFO*
>
> In total? Yes, we'll get that. But in the quarter, we leveraged selling expenses significantly. We saw a significant opportunity for leverage, and I think that's a

> testament to the opportunity for the brand to grow in markets that we've already seeded with selling investments.
>
> **David Weinberg** - Skechers U.S.A., Inc. - COO, Executive VP & Director
>
> Yes, I think as far as advertising is concerned and it depends how you want to define it, not just media but our advertising in in-stores, ***we anticipate that the rate of growth will continue to slow as it has in the past, and we'll be able to leverage them***. We're going to change focus and advertise obviously more in international and relatively stable in the U.S. We would think that we're okay in the U.S. And all increases will come from international. So that's very positive and will match the sales. And we anticipate it would stay in the same range, maybe slight leverage as we go through the year.

126. The statement referenced above in ¶125 that the "rate of growth" for Skechers' advertising expenses would "continue to slow as it has in the past, and we'll be able to leverage them," was materially false and misleading when made, because it failed to disclose and/or misrepresented the following adverse facts that Defendants knew, or recklessly disregarded, at the time the statements were made:

(a) that more than one-third of the way through the first quarter of 2018, Skechers was already substantially increasing its international advertising expenditures in the quarter;

(b) that part of this increase in advertising expenditures in China involved costs related to the Company's opening of franchised stores and providing needed POP and branded store fixturing for those stores; and

(c) that such store development and grand opening planning is not an intra-quarter event.

127. In addition, Defendant Vandemore was asked by an analyst from Cowen and Company about Skechers' expectation for its gross margin and SG&A expenses for the first quarter of 2018. His exchange with the analyst was, in pertinent part, as follows:

John David Kernan - *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*

John, did you give any detail between -- the breakdown between gross margin and SG&A in the first quarter and your expectations? I know there's a lot of mixed shift between international wholesale, domestic wholesale and retail, but can you just give us a little more detail on the margin expectations in Q1?

John M. Vandemore - *Skechers U.S.A., Inc. - CFO*

Yes. I think, obviously, it will depend on mix, right, as the biggest trend in our gross margins has been the influence of increasing international participation in our overall revenue mix. What I would say is we're probably looking for stable to better gross margins in Q1, maybe a little bit better than that due to some mixed shifts. ***And then from an SG&A perspective, we think it will begin to show the leverage that we've experienced in Q4***. To what degree? Somewhat matters on the opportunity because much of our SG&A spend has been linked to the growth in China. China alone was a significant top line grower and, obviously, a contributor on the SG&A line. And there's also other influences that we don't have great visibility into right now like currency and FX rates that will impact us.

128. The statement referenced above in ¶127 that in the first quarter of 2018, "from an SG&A perspective, we think it will begin to show the leverage that we've experienced in Q4" was materially false and misleading when made, because it failed to disclose and/or misrepresented the following adverse facts that Defendants knew, or recklessly disregarded, at the time the statements were made:

(a) that Defendants were solely focused on growing Skechers' top line, particularly in the Company's international segment, without any regard to the SG&A expenses that were necessary to achieve an increase in sales numbers;

(b) that the Company was heavily reliant on costly third party operations in international markets like China, where it does not have its own distribution center, to sustain this growth. These third party operations add additional costs on a per unit basis such that Defendants could reasonably expect that the Company's SG&A expenses would continue to rise disproportionately to its sales growth as Skechers' international expansion progressed;

(c) that Skechers was in the process of rolling out hundreds of third party and Company-owned stores, the expenses of which are planned for well in advance of store openings. Given the long planning process associated with rolling out stores, which includes, among other things, developing store financials, real estate sourcing and product orders, Defendants would understand that the Company's SG&A expenses would continue to increase at a higher rate than its net sales as more store openings took place; and

(d) that, as a result of the foregoing, while the Company had reported SG&A expense leverage for the fourth quarter of 2017, the Company's SG&A expense growth was set to significantly outpace its net sales growth in the first quarter of 2018.

129. On March 1, 2018, Skechers filed the 2017 Form 10-K, which was signed by, *inter alia*, Defendants Greenberg, Weinberg, and Vandemore and included signed SOX certifications by Defendants Greenberg and Vandemore, attesting to the accuracy of the Company's financial reporting and the design, strength and effectiveness of Skechers disclosure controls and procedures.

130. With respect to the Company's balance sheet and management of expenses, the 2017 Form 10-K stated, in pertinent part, as follows:

> **Balance sheet and expense management**. During 2017, ***we continued to focus on managing our balance sheet and bringing our marketing expenses and general and administrative expenses in line with expected sales***.

131. The statement referenced above in ¶130 that Defendants were "focus[ed] on managing our balance sheet and bringing our marketing expenses and general and administrative expenses in line with expected sales" was materially false and misleading when made, because it failed to disclose and/or misrepresented the following adverse facts that Defendants knew, or recklessly disregarded, at the time the statements were made:

(a) that Defendants were solely focused on growing Skechers' top line, particularly in the Company's international segment, without any regard to the SG&A expenses that were necessary to achieve an increase in sales numbers;

(b) that the Company was heavily reliant on costly third party operations in international markets like China, where it does not have its own distribution center, to sustain this growth. These third party operations add additional costs on a per unit basis such that Defendants could reasonably expect that the Company's SG&A expenses would continue to rise disproportionately to its sales growth as Skechers' international expansion progressed;

(c) that Skechers was in the process of rolling out hundreds of third party and Company-owned stores, the expenses of which are planned for well in advance of store openings. Given the long planning process associated with rolling out stores, which includes, among other things, developing store financials, real estate sourcing and product orders, Defendants would understand that the Company's SG&A expenses would continue to increase at a higher rate than its net sales as more store openings took place; and

(d) as a result of the foregoing, despite Defendants' representations to the contrary, Defendants were not focused on managing the Company's expenses to be in line with expected sales.

132. On April 19, 2018, after the market closed, Skechers issued a press release announcing its financial results for the first quarter of 2018 ended March 31, 2018, which it filed with the SEC on Form 8-K (the "4/19/18 Press Release"). Skechers once again announced a new record for quarterly sales of $1.25 billion, representing a ***16.5%*** increase compared to the first quarter of 2017. Despite an increase in quarterly net sales, the Company reported SG&A expenses that significantly outpaced net sales growth during the quarter.

133. Specifically, the Company reported SG&A expenses totaling $439.8 million – a ***23.4%*** increase from the first quarter of 2017. This flew in the face of the abatement in expense growth that Defendants had led the market to expect.

134. According to the 4/19/18 Press Release, the 23.4% increase in SG&A expenses was "due to an additional $72.9 million in general and administrative expenses" more than 50% of which, or $37.4 million, was "to support international growth in the Company's joint venture and subsidiary businesses."

135. The SG&A expenses also included "$18.3 million associated with operating 73 additional Company-owned Skechers stores" and a $10.6 million increase in selling expenses that the Company stated were "primarily due to higher international advertising expenses."

136. In response to this disappointing news, the price of Skechers common stock declined from $42.08 per share on April 19, 2018 to close at $30.70 per share on April 20, 2019 – a decline of approximately $11.38 per share, more than 27%, on high trading volume of more than 37 million shares trading. This was more than 12.5 times greater than the average daily trading volume during the Class Period. The Company's stock price, however, remained artificially inflated, as Defendants falsely represented when they learned about the higher SG&A expenses and continued to mislead the market as to the true extent of Skechers' SG&A expense growth going forward.

137. During Skechers' April 19, 2018 earnings call, an analyst from Susquehanna Financial Group pointed out that Defendants had just recently guided SG&A leverage for the first quarter, but were now reporting significantly increased G&A expense growth. The following exchange took place:

> **Samuel Marc Poser** - *Susquehanna Financial Group, LLP, Research Division - Senior Analyst*
>
> [A]bout 6 weeks ago, or whenever you announce, or 8 weeks ago, when you announced Q4, ***you guided the SG&A to a certain level, and the G&A came in well***

> ***higher***. And I guess, the question is, was -- how much of the incremental spend was last-minute to support, like sort of when did you know that your -- I mean, when did this arise, the need to -- for this additional spend?
>
> **David Weinberg -** *Skechers U.S.A., Inc. - Executive VP, COO & Director*
>
> Well, ***it was a later event***. As John said, it has to do with the distribution cost. And, by far, ***March was a much bigger month and a much bigger by average, which is why we were higher than our original guidance as far as business was concerned***, both in the U.S., and Europe and in China, which had a bigger piece coming through their franchises and their online business. It put a lot of pressure on our structure, we had significant amounts of increased labor costs, time we had to rent some additional space so we could process on a more timely basis and get things out.

138. The statement referenced above in ¶137 that the increase in Skechers' SG&A expenses during the first quarter of 2018 was a result of a "later event" because "March was a much bigger month by average," was materially false and misleading when made, because it failed to disclose and/or misrepresented the following adverse facts that Defendants knew, or recklessly disregarded, at the time the statements were made:

(a) that Defendants would have long known about these expenses because sales planning is a long-term activity that transcends beyond a single quarter;

(b) that the Company boasts its strong relationship with its partners to carefully monitor and forecast inventory needs;

(c) that, with respect to China, increased inventory demand by Skechers' owned and franchised retail stores equates to higher inventory distribution and logistics expense; and

(d) as a result of the foregoing, Defendants would have been well prepared for a particular month with higher than average sales.

139. Also during Skechers' April 19, 2018 earnings call, an analyst from B. Riley FBR Inc. asked when the Company would return to leverage on its SG&A expenses. That exchange was, in pertinent part, as follows:

> **Jeffrey Wallin Van Sinderen** - B. *Riley FBR, Inc., Research Division - Senior Analyst*
>
> And then leverage, do you think leverage on SG&A starting in Q3 again?
>
> **David Weinberg** - *Skechers U.S.A., Inc. - Executive VP, COO & Director*
>
> I would think so. That's based on top line and where we're going. Part of the issue is, we've had more of the same we've had in the prior year. So Korea was up, but deleveraged somewhat more because we had to put a little more infrastructure in than we had anticipated. China is anticipating such strong growth that we had to pump up expenses to handle the business that's coming, and a bigger piece of that business is online, which has more infrastructure build because of the uniqueness of shipping one pair at a time for that, the size they are. ***So we do believe that we will catch up, that the top line will be such and that we will be able to again start to leverage again in Q3. It should be a very positive time for us***, just like we thought last year Q1 would be a positive change for us this year as well.

140. The statement referenced above in ¶139 that "we do believe that we will catch up, that the top line will be such and that we will be able to again start to leverage again in Q3. It should be a very positive time for us," was materially false and misleading when made, because it failed to disclose and/or misrepresented the following adverse facts that Defendants knew, or recklessly disregarded, at the time the statements were made:

(a) that Defendants were solely focused on growing Skechers' top line, particularly in the Company's international segment, without any regard to the SG&A expenses that were necessary to achieve an increase in sales numbers;

(b) that the Company was heavily reliant on costly third party operations in international markets like China, where it does not have its own distribution center, to sustain this growth. These third party operations add additional costs on a per unit basis such that Defendants could reasonably expect that the Company's SG&A expenses would continue to rise disproportionately to its sales growth as Skechers' international expansion progressed;

(c) that Skechers was in the process of rolling out hundreds of third party and Company-owned stores, the expenses of which are planned for well in advance of store openings.

Given the long planning process associated with rolling out stores, which includes, among other things, developing store financials, real estate sourcing and product orders, Defendants would understand that the Company's SG&A expenses would continue to increase at a higher rate than its net sales as more store openings took place; and

(d) that, as a result of the foregoing, the Company was poised to once again report significant SG&A deleverage for the second quarter, and not likely to achieve SG&A leverage during the third quarter of 2018.

141. On May 4, 2018, Skechers filed its quarterly report for the period ended March 31, 2018 with the SEC on Form 10-Q (the "1Q18 Form 10-Q") which was signed by Defendant Vandemore and included signed SOX certifications by Defendants Greenberg and Vandemore, attesting to the accuracy of the Company's financial reporting and the design, strength and effectiveness of Skechers disclosure controls and procedures.

142. With respect to the Company's management of expenses, the 1Q18 Form 10-Q stated, in pertinent part, as follows:

> During the remainder of 2018, we intend to focus on: (i) continuing to develop new lifestyle and performance product at affordable prices to increase product count for all customers, (ii) ***continuing to manage*** our inventory and ***expenses to be in line with expected sales levels***, (iii) growing our international business, and (iv) strategically expanding our retail distribution channel by opening another 60 to 75 Company-owned retail stores during the remainder of the year.

143. The statement referenced above in ¶142 that during 2018 Defendants "intend[ed] to focus on . . . continuing to manage . . . expenses to be in line with expected sales levels" was materially false and misleading when made, because it failed to disclose and/or misrepresented the following adverse facts that Defendants knew, or recklessly disregarded, at the time the statements were made:

(a) that Defendants were solely focused on growing Skechers' top line, particularly in the Company's international segment, without any regard to the SG&A expenses that were necessary to achieve an increase in sales numbers;

(b) that the Company was heavily reliant on costly third party operations in international markets like China, where it does not have its own distribution center, to sustain this growth. These third party operations add additional costs on a per unit basis such that Defendants could reasonably expect that the Company's SG&A expenses would continue to rise disproportionately to its sales growth as Skechers' international expansion progressed;

(c) that Skechers was in the process of rolling out hundreds of third party and Company-owned stores, the expenses of which are planned for well in advance of store openings. Given the long planning process associated with rolling out stores, which includes, among other things, developing store financials, real estate sourcing and product orders, Defendants would understand that the Company's SG&A expenses would continue to increase at a higher rate than its net sales as more store openings took place; and

(d) as a result of the foregoing, despite Defendants' representations to the contrary, Defendants were not focused on managing the Company's expenses to be in line with expected sales levels.

144. On July 19, 2018, after the market closed, Skechers issued a press release announcing its second quarter 2018 financial results for the three months ended June 30, 2018, which it filed with the SEC on Form 8-K (the "7/19/18 Press Release"). In the 7/19/18 Press Release, Defendants once again reported "another record sales quarter," with sales totaling $1.134 billion for the quarter – a ***10.6%*** increase compared to the second quarter of 2017.

145. In the 7/19/18 Press Release, Skechers also reported a massive increase in SG&A expenses, which grew ***19.7%***. This was almost ***twice*** the Company's reported sales growth compared to the second quarter of 2017.

146. According to the 7/19/18 Press Release, almost half of the Company's significant increase in general and administrative expenses, or $29.4 million, was "to support continued expansion" in China. The general and administrative expenses also included $19.8 million related to corporate and domestic expenses, of which $7.0 million was for increased domestic warehouse and distribution costs and $6.2 million was for legal costs. As a result, Skechers reported diluted earnings per share of $0.29, which missed its own guidance range by $0.09 - $0.14, a decrease in earnings from operations of 5.7%, and net earnings of just $45.3 million, a decline of 23.9%.

147. On the Company's earnings call held the same day, Defendant Weinberg made it clear that, in contrast to their prior statements, Defendants were not concerned with increasing the Company's profits, or managing its expenses, and were solely focused on top line growth:

> **John David Kernan -** *Cowen and Company, LLC, Research Division - MD and Senior Research Analyst*
>
> All right. So I guess, my final question is a bigger picture question. There has been well over $1 billion in total top line growth. ***The past couple of years just there has not been much growth in EBIT. So I'm just wondering at what point do you think you will trade top line growth with ability to start growing top line in a more significant rate***? Do you think – if you pull back on G&A expenses, do you think the top line would decelerate significantly in line with that?
>
> **David Weinberg -** *Skechers U.S.A., Inc. - Executive VP, COO & Director*
>
> ***<u>We just don't necessarily think that way</u>. <u>We're into growth</u>. <u>We think that transition to sacrificing top line growth for EBIT will happen when a marketplace tell us – as we get into – closer to a saturation point</u>. <u>Right now, we are built for growth</u>. <u>We have the capital for growth. We wouldn't leave anything on the table</u>***. . . .

148. Numerous analysts issued reports reacting negatively to the news disclosed by Skechers on July 19, 2018 that the Company's SG&A expense growth had outpaced that of net sales

once again, despite Defendants' regular calls for moderation of expense growth, and that Defendants were focused on growing the Company's top line ahead of improving profitability.

149. In response to this disappointing news, the price of Skechers common stock fell from $33.25 per share on July 19, 2018 to close at $26.27 per share on July 20, 2018 – a decline of approximately $7.00 per share, or nearly 21%, on high trading volume of more than 53 million shares trading, more than 18 times greater than the average daily trading volume during the Class Period.

Omissions Based on Violations of Item 303 of SEC Regulation S-K [17 C.F.R. §229.303]

150. Pursuant to Item 303, and the SEC's related interpretive releases thereto, an issuer is required to disclose known trends, uncertainties or risks that have had, or are reasonably likely to have, a materially adverse impact on net sales or revenues or income from continuing operations. Such disclosure is required by an issuer in the management's discussion and analysis section of Forms 10-K and Forms 10-Q.

151. In May 1989, the SEC issued an interpretive release on Item 303 (the "1989 Interpretive Release"), stating, in pertinent part, as follows:

> Required disclosure is based on currently known trends, events and uncertainties that are reasonably expected to have material effects, such as: A reduction in the registrant's product prices; erosion in the registrant's market share; changes in insurance coverage; or the likely non-renewal of a material contract.
>
> * * *
>
> A disclosure duty exists where a trend, demand, commitment, event or uncertainty is both presently known to management and reasonably likely to have material effects on the registrant's financial condition or results of operation.

152. Furthermore, the 1989 Interpretive Release sets forth the following test to determine if disclosure under Item 303(a) is required:

> Where a trend, demand, commitment, event or uncertainty is known, management must make two assessments:

> (1) Is the known trend, demand, commitment, event or uncertainty likely to come to fruition? If management determines that it is not reasonably likely to occur, no disclosure is required.
>
> (2) If management cannot make that determination, it must evaluate objectively the consequences of the known trend, demand, commitment, event or uncertainty, on the assumption that it will come to fruition. Disclosure is then required unless management determines that a material effect on the registrant's financial condition or results of operations is not reasonably likely to occur.

153. Item 303 required the disclosure of known risks and uncertainties to Skechers presented by the Company's ever-increasing SG&A expense growth. The Company did not make such required disclosures in the 2017 Form 10-K and 3Q17 and 1Q18 Forms 10-Q, in violation of Item 303.

154. As alleged herein, during the Class Period, Skechers' perpetual sales growth – most notably in China – required the Company to continue to spend enormous, and increasing, amounts of money just to sell its products. The Company's uncontrolled SG&A expense growth and its trajectory, were events that presented known trends and uncertainties that were reasonably likely to – and, when they came to fruition during the Class Period, did – adversely affect Skechers' financial condition and results.

155. Accordingly, Item 303 required disclosure of these known trends and uncertainties, in the Forms 10-Q and Form 10-K filed during the Class Period. These SEC filings, however, failed to mention and describe the risks or uncertainties to the Company's business in connection with continuous SG&A expense growth, in particular in China. The omission of this information violated the disclosure obligation imposed by Item 303.

ADDITIONAL SCIENTER ALLEGATIONS

156. As alleged herein, Defendants acted with scienter in that they knew, or recklessly disregarded, that the public documents and statements issued or disseminated in the name of the Company (or in their own name) were materially false and misleading; knew or recklessly

disregarded, that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. Defendants, by virtue of their receipt of information reflecting the true facts regarding Skechers, their control over, and/or receipt and/or modification of Skechers' materially false and misleading misstatements, were active and culpable participants in the fraudulent scheme alleged herein.

157. Because of their positions within Skechers, Defendants Greenberg, Weinberg, and Vandemore had access to non-public information about the Company's business, operations, operational trends, financial statements, markets, and present and future business prospects via access to internal corporate documents, conversations and connections with other corporate officers and employees, attendance at management and/or Board of Directors meetings and committees thereof, and via reports and other information provided to them in connection therewith. Because of their possession of such information, these Defendants knew, or recklessly disregarded, that the adverse facts specified herein had not been disclosed to, and were being concealed from, the investing public.

158. The Individual Defendants, by virtue of their high-level positions with the Company, directly participated in the management of the Company, were directly involved in the day-to-day operations of the Company at the highest levels and were privy to confidential proprietary information concerning the Company and its business, operations, SG&A expenses, financial statements, and financial condition, as alleged herein.

159. Defendants knew and/or recklessly disregarded the falsity and misleading nature of the information which they caused to be disseminated to the investing public. The fraudulent activity alleged herein could not have been perpetrated during the Class Period without the knowledge and

complicity or, at least, the reckless disregard of the officers at the highest levels of the Company, including Defendants Greenberg, Weinberg, and Vandemore.

160. For example, Defendants Greenberg, Weinberg, and Vandemore were all executive officers of Skechers and, at a minimum, would have been aware of key facts related to the Company's operations. Defendant Greenberg as the Company's CEO and Chairman of the Board, Defendant Weinberg as COO and CFO, and Defendant Vandemore as CFO, all would have been aware of the issues associated with Skechers' SG&A expense growth. Accordingly, scienter can be imputed to Defendants on this basis.

161. Moreover, Defendants possessed substantial motives for failing to disclose the extent to which the Company's SG&A expenses were continuing to increase. During the Class Period, Defendants Greenberg, Weinberg, as well as other senior Company executives, in connection with the fraudulent scheme alleged herein, sold more than $38 million worth of Skechers common stock, while in possession of material non-public information, as set forth below:

Filer Name	Title	Date	Shares	Price	Proceeds
Robert Greenberg	Chairman of the Board and Chief Executive Officer	12/19/2017 12/20/2017 03/02/2018	400,000 100,000 37,814	$37.69 $37.54 $40.34	$15,076,000 $3,754,000 $1,525,417
			537,814		**$20,355,417**
David Weinberg	Executive Vice President, Chief Operating Officer and Director	03/02/2018 05/02/2018	23,183 25,210	$40.34 $28.18	$935,202 $708,905
			48,393		**$1,644,107**
Michael Greenberg	President and Director	11/02/2017	150,000	$31.86	$4,779,000
			150,000		**$4,779,000**
Jeffrey Greenberg	Senior Vice President of Active Electronics Media and	10/20/2017 10/20/2017 10/20/2017 11/01/2017 11/01/2017	60,000 60,000 60,000 10,000 10,000	$31.32 $31.60 $32.24 $31.32 $31.60	$1,879,200 $1,896,000 $1,934,400 $313,200 $316,000

Filer Name	**Title**	**Date**	**Shares**	**Price**	**Proceeds**
	Director	11/01/2017 11/29/2017 12/01/2017 12/01/2017	10,000 45,000 20,000 10,000	$32.24 $35.00 $35.40 $35.41	$322,400 $1,575,000 $708,000 $354,100
			285,000		**$9,298,300**
Mark Nason	Executive Vice President of Product Development	02/28/2018 03/02/2018	156 16,701	$42.00 $40.34	$6,552 $673,718
			16,857		**$680,270**
Philip Paccione	Executive Vice President of Business Affairs, General Counsel and Corporate Secretary	03/23/2018	17,432	$38.04	$663,113
			17,432		**$663,113**
Richard Siskind	Director	10/24/2017	25,500	$33.40	$851,700
			25,500		**$851,700**
TOTAL:			**1,080,996**		**$38,271,907**

162. The timing of the Class Period Skechers stock sales by Defendants Greenberg and Weinberg was unusual and suspicious. For example, on December 19 and 20, 2017, in two transactions, Defendant Greenberg unloaded half a million Skechers shares held by the Greenberg Family Trust, of which he and his wife Susan are co-trustees, earning proceeds of more than ***$18.8 million***.

163. These transactions were unusual and suspicious because Greenberg's sales during the Class Period ***far*** exceeded his pre-Class Period sales. Specifically, in a control period before the

Class Period, from January 20, 2017 through October 19, 2017, Defendant Greenberg did not sell a single share of Skechers common stock.[2]

164. Also on March 2, 2018, just one day after signing the 2017 Form 10-K, in which Defendants stated, *inter alia,* that ***"[d]uring 2017, we continued to focus on managing our balance sheet and bringing our marketing expenses and general and administrative expenses in line with expected sales***," Greenberg sold another 37,814 shares of his personally held Skechers stock, for proceeds of more than $1.5 million. This transaction brought his total proceeds from sales of Skechers stock during the Class Period to $20.3 million.

165. Defendant Weinberg also benefitted from unusual and suspicious Class Period transactions, selling more than 48,000 personally held shares on March 2, 2018, and May 2, 2018 for total proceeds of over ***$1.6 million***.

166. Similar to Defendant Greenberg, as Skechers' stock price headed towards a Class Period high, Weinberg sold over 23,000 shares of his personally held Skechers stock on March 2, 2018, the very next day after Skechers issued the 2017 Form 10-K – of which Defendant Weinberg was a signatory – for proceeds of over ***$935,000***.

167. Further, the timing of Defendant Weinberg's May 2, 2018 transaction was suspicious, as it came less than two weeks after he told the market on Skechers' 2Q18 conference call that the Company was on its way to leveraging its SG&A expenses, stating that, "***we do believe that*** . . . ***will be able to again start to leverage again in Q3. It should be a very positive time for us***." While knowing, or recklessly disregarding, that Skechers was poised to once again report that SG&A expenses were growing at a markedly faster pace than its net sales, in light of its growth in China, Weinberg cashed in, earning approximately ***$709,000*** in proceeds.

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[2] The "control period" before the Class Period consists of 272 days, which is the length of the Class Period.

168. Taken collectively, Defendants Greenberg and Weinberg's Class Period Skechers stock sales support an inference of scienter because these sales were timed to capitalize on Skechers' inflated stock price before the news that the Company's SG&A expense growth was continuing to outpace its net sales growth was revealed to the market.

169. Defendants also had a strong financial motive to keep growing the Company's revenues, without regard to its profits, because of the substantial incentive-based compensation they were set to earn.

170. According to the Company's Definitive Proxy Statement filed with the SEC on April 12, 2018, "Named Executive Officers' annual incentive compensation is calculated on a quarterly basis by ***multiplying net sales growth, which is the amount by which net sales for the applicable quarter exceeded net sales for the corresponding quarter in the prior year***, ***by the percentages that were pre-approved by the Compensation Committee***."

171. As stated in the Company's April 12, 2018 Proxy Statement, in fiscal 2017, Defendant Greenberg's pre-approved percentage was set at ***0.5%*** of corresponding net sales growth and Defendant Weinberg's was 0.150%.

172. Following the announced transition of his duties to solely serving as COO, Defendant Weinberg entered into a new employment agreement, as of January 1, 2018, which was filed with the SEC as an exhibit to the 1Q18 Form 10-Q. According to that employment agreement, Weinberg's potential bonus percentage of the Company's net sales change was increased. The agreement states, in pertinent part, as follows:

> ***Employee will be eligible to receive an annual bonus in an amount of <u>not less than</u> 0.165% percent of the amount which net sales for the applicable Fiscal Year during the Term exceed net sales for the prior Fiscal Year***, such amounts being payable on a quarterly basis during the Term in an amount which net sales for the applicable Fiscal Quarter exceed net sales for the corresponding Fiscal Quarter in the prior year.

173. Indeed, in each consecutive quarter during the Class Period, Skechers set a new record for quarterly sales – $970.6 million (4Q17), $1.250 billion (1Q18), and $1.134 billion (2Q18). Moreover, as set forth in the following chart, in each quarter, the Company exceeded total net sales compared to the corresponding quarter in the prior year by at least ***$100 million***:

Quarter	**Amount by which net sales for the quarter exceeded net sales for the corresponding quarter in the prior fiscal year, during the Class Period**
Q4 2017	$206.3 million
Q1 2018	$177.3 million
Q2 2018	$108.9 million

174. These increases resulted in significant financial benefits for the Individual Defendants. For example, according to the Company's April 12, 2018 Proxy Statement, Defendant Greenberg earned ***$1,031,498*** as a result of the Company's then-record setting sales numbers in the fourth quarter of 2017.

175. On information and belief, Defendant Greenberg earned ***at a minimum***, another ***$1.4 million*** during the Class Period as a direct result of Skechers exceeding its quarterly net sales numbers compared to the first and second quarters of 2017.

176. This compensation scheme created a divergence of interests between the Individual Defendants and the Company's shareholders. As analysts at Susquehanna Financial Group stated in a July 20, 2018 report:

> ***However, we do believe that the company, perhaps, should temper its spending to some degree (SG&A), which may negatively impact sales growth. Skechers' NEO's incentive compensation is based on net sales growth according to the most recent proxy. While we are confident that management continues to work to improve the Skechers' brand, we believe it would be prudent to better align shareholders' and management's interests***.

177. In addition, the fraud alleged herein relates to the core business and operations of Skechers so knowledge of the fraud may be imputed to Defendants. As Defendant Weinberg

recognized on Skechers' February 8, 2018 earnings call "***[i]nternational wholesale remains our biggest distribution channel***, representing ***41.5%*** of our total sales for the year [2017], while international wholesale and retail combined represented ***50.6%*** for the same period."

178. The allegations above also establish a strong inference that Skechers as an entity acted with corporate scienter throughout the Class Period, as its officers, management, and agents, including, but not limited to, the Individual Defendants, had actual knowledge of the misrepresentations and omissions of material facts set forth herein (for which they had a duty to disclose), or acted with reckless disregard for the truth because they failed to ascertain and to disclose such facts, even though such facts were available to them. Such material misrepresentations and/or omissions were done knowingly or with recklessness, and without a reasonable basis, for the purpose and effect of concealing Skechers' true operating condition and present and expected financial performance from the investing public. By concealing these material facts from investors, Skechers maintained and/or increased its artificially inflated common stock prices throughout the Class Period.

CLASS ACTION ALLEGATIONS

179. Lead Plaintiffs bring this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased Skechers common stock during the Class Period (the "Class"), and were damaged upon the revelation of the alleged corrective disclosures. Excluded from the Class are Defendants herein, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

180. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Skechers common stock was actively traded on the

NYSE. While the exact number of Class members is unknown to Lead Plaintiffs at this time and can be ascertained only through appropriate discovery, Lead Plaintiffs believe that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Skechers or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

181. Lead Plaintiffs' claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

182. Lead Plaintiffs will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class and securities litigation. Lead Plaintiffs have no interests antagonistic to or in conflict with those of the Class.

183. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- whether the federal securities laws were violated by Defendants' acts as alleged herein;
- whether statements made by Defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of Skechers;
- whether the Individual Defendants caused Skechers to issue false and misleading statements during the Class Period;
- whether Defendants acted knowingly or recklessly in issuing false and misleading statements;
- whether the price of Skechers' common stock during the Class Period was artificially inflated because of the Defendants' conduct complained of herein; and

- whether the members of the Class have sustained damages and, if so, the proper measure of damages.

184. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

**APPLICABILITY OF PRESUMPTION OF RELIANCE:
FRAUD ON THE MARKET DOCTRINE**

185. During the Class Period, the market for Skechers common stock was an efficient market for the follow reasons, among others:

- Defendants made public misrepresentations or failed to disclose material facts during the Class Period;
- the omissions and misrepresentations were material;
- Skechers common stock traded in an efficient market;
- the Company's shares were liquid and traded with moderate to heavy volume during the Class Period;
- the Company's stock traded on the NYSE and was covered by multiple analysts;
- the misrepresentations and omissions alleged would tend to induce a reasonable investor to misjudge the value of the Company's common stock; and
- Lead Plaintiffs and members of the Class purchased or acquired Skechers common stock between the time the Defendants failed to disclose or misrepresented material facts and the time the true facts were disclosed, without knowledge of the omitted or misrepresented facts.

186. Based upon the foregoing, Lead Plaintiffs and the members of the Class are entitled to a presumption of reliance upon the integrity of the market.

187. Alternatively, Lead Plaintiffs and the members of the Class are entitled to the presumption of reliance established by the Supreme Court in *Affiliated Ute Citizens of the State of*

Utah v. United States, 406 U.S. 128, 92 S. Ct. 2430 (1972), as Defendants omitted material information in their Class Period statements in violation of a duty to disclose such information, as detailed above.

LOSS CAUSATION

188. As detailed herein, Defendants engaged in a scheme to deceive the market and a course of conduct that artificially inflated the price of Skechers common stock and operated as a fraud or deceit on purchasers of such stock by failing to disclose and misrepresenting adverse facts. As such misrepresentations and fraudulent conduct were disclosed and became apparent to the market, the price of Skechers stock declined significantly as the prior artificial inflation came out of the Company's stock price.

189. As a result of their purchases of Skechers common stock during the Class Period, Lead Plaintiffs and other Class members suffered economic loss, *i.e.*, damages, under the federal securities laws. Defendants' false and misleading statements had the intended effect and caused Skechers common stock to trade at artificially inflated levels throughout the Class Period, reaching as high as $42.45 on April 17, 2018.

190. On April 19, 2018, following the close of the market, Skechers issued a press release announcing its financial results for the first quarter of 2018 ended March 31, 2018. Skechers announced quarterly sales of $1.25 billion, but reported substantial SG&A expense deleverage for the quarter, in direct contrast to what they told the market to expect. Specifically, the Company reported that during the first quarter, SG&A expenses totaled $439.8 million – a 23.4% increase from the first quarter of 2017 – compared to a 16.5% increase in net sales over the same period. According to the press release issued by Defendants, the 23.4% increase in SG&A expenses was "due to an additional $72.9 million in general and administrative expenses" more than 50% of

which, or $37.4 million, was "to support international growth in the Company's joint venture and subsidiary businesses."

191. In response to this disappointing news, the price of Skechers common stock declined from $42.08 per share on April 19, 2018 to close at $30.70 per share on April 20, 2018 – a decline of approximately $11.38 per share, more than 27%, on high trading volume of more than 37 million shares trading. This was more than 12.5 times greater than the average daily trading volume during the Class Period. Skechers common stock remained artificially inflated due to Defendants' fraudulent conduct as alleged herein.

192. Then, on July 19, 2018, after the market closed, Skechers stunned the market by once again revealing a massive increase in its SG&A expenses, which grew by nearly twice the amount that net sales grew compared to the second quarter of 2017. The Company stated in the press release that almost half of the Company's significant increase in general and administrative expenses, or $29.4 million, was "to support continued expansion" in China. As such, Skechers reported earnings per share of just $0.29, missing its own guidance range by $0.09 - $0.14, a decrease in earnings from operations of 5.7%, and a net earnings decline of 23.9%.

193. In response to this disappointing news, the price of Skechers common stock fell from $33.25 per share on July 19, 2018 to close at $26.27 per share on July 20, 2018 – a decline of approximately $7.00 per share, or nearly 21%, on high trading volume of more than 53 million shares trading, more than 18 times greater than the average daily trading volume during the Class Period.

194. As a result of Defendants' false and misleading statements, Skechers' common stock traded at artificially inflated prices during the Class Period. However, after the above revelations

seeped into the market, the price of Skechers' common stock declined significantly, sending Skechers' stock price down 38% from its Class-Period high.

195. By concealing from investors the adverse facts detailed herein, Defendants presented a misleading picture of Skechers' business and its SG&A expense growth. When the truth about the Company was revealed to the market, the price of Skechers common stock substantially declined. Such decline removed the inflation from the price of Skechers common stock, causing real economic loss to investors who had purchased Skechers common stock during the Class Period.

196. The declines in the price of Skechers common stock after the corrective disclosures came to light were a direct result of the nature and extent of Defendants' fraudulent misrepresentations being revealed to investors and the market. The timing and magnitude of the price declines in Skechers' common stock negate any inference that the loss suffered by Lead Plaintiffs and other Class members was caused by changed market conditions, macroeconomic or industry factors or Company-specific facts unrelated to Defendants' fraudulent conduct.

197. The economic loss, *i.e.*, damages, suffered by Lead Plaintiffs and other Class members was a direct result of Defendants' fraudulent scheme to artificially inflate the price of Skechers common stock and the subsequent significant declines in the value of Skechers common stock when Defendants' prior misrepresentations and other fraudulent conduct were revealed.

NO SAFE HARBOR

198. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the false statements alleged. Many of the statements herein were not identified as "forward-looking statements" when made. To the extent there were any forward-looking statements, no meaningful cautionary statements identified important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-

looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew or had actual knowledge that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Skechers who knew that those statements were false when made.

COUNT I

Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder (Against All Defendants)

199. Lead Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

200. During the Class Period, Defendants disseminated or approved the materially false and misleading statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and/or failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

201. Defendants: (i) employed devices, schemes, and artifices to defraud; (ii) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (iii) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of Skechers stock during the Class Period.

202. Lead Plaintiffs and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Skechers stock. Lead Plaintiffs and the Class would not have purchased Skechers stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by Defendants' misleading statements and/or omissions.

203. As a direct and proximate result of Defendants' wrongful conduct, Lead Plaintiffs and the other members of the Class suffered damages in connection with their purchases of Skechers stock during the Class Period.

COUNT II

Violations of Section 20(a) of the Exchange Act (Against the Individual Defendants)

204. Lead Plaintiffs repeat and reallege each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

205. The Individual Defendants acted as controlling persons of Skechers within the meaning of Section 20(a) of the Exchange Act as alleged herein. By reason of their positions as officers and/or directors of Skechers, and their ownership of Skechers stock, the Individual Defendants had the power and authority to cause Skechers to engage in the wrongful conduct complained of herein.

206. By reason of such conduct, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act.

PRAYER FOR RELIEF

WHEREFORE, Lead Plaintiffs demand judgment against Defendants as follows:

A. Determining that this action is a proper class action, certifying Lead Plaintiffs as Class representatives under Rule 23 of the Federal Rules of Civil Procedure and Lead Plaintiffs' counsel as Class Counsel;

B. Awarding compensatory damages in favor of Lead Plaintiffs and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

C. Awarding Lead Plaintiffs and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Awarding Lead Plaintiffs and the other members of the Class such other and further relief as may be just and proper under the circumstances.

JURY DEMAND

Lead Plaintiffs hereby demand a trial by jury.

DATED: January 22, 2019

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CERTIFICATE OF SERVICE

I hereby certify under penalty of perjury that on January 22, 2019, I authorized a true and correct copy of the foregoing document to be electronically filed with the Clerk of the Court using the CM/ECF system, which will send notification of such public filing to all counsel registered to receive such notice.

/s/ SAMUEL H. RUDMAN
SAMUEL H. RUDMAN

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